

State of Arizona  
House of Representatives  
Forty-fifth Legislature  
First Regular Session  
2001

CHAPTER 115

# HOUSE BILL 2145

AN ACT

AMENDING SECTIONS 5-407 AND 15-994, ARIZONA REVISED STATUTES; AMENDING SECTION 42-1116, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2000, CHAPTER 193, SECTION 479; REPEALING SECTION 42-1116, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2000, CHAPTER 372, SECTION 4; AMENDING SECTIONS 42-1122, 42-1125, 42-2003, 42-5014 AND 42-5061, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5070, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2000, CHAPTER 314, SECTION 1 AND CHAPTER 375, SECTION 5; REPEALING SECTION 42-5070, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2000, CHAPTER 372, SECTION 8; AMENDING SECTION 42-5075, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2000, CHAPTER 33, SECTION 1, CHAPTER 63, SECTION 7, CHAPTER 214, SECTION 1 AND CHAPTER 359, SECTION 1; REPEALING SECTION 42-5075, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2000, CHAPTER 372, SECTION 11; AMENDING SECTIONS 42-5159, 42-11109, 43-323, 43-1022, 43-1031, 43-1074.01, 43-1077, 43-1078, 43-1081.02, 43-1088.01, 43-1122, 43-1123, 43-1165, 43-1166, 43-1168, 43-1179, 43-1180, 43-1231, 43-1241, 43-1413, 44-301 AND 44-302, ARIZONA REVISED STATUTES; BLENDING MULTIPLE ENACTMENTS; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 5-407, Arizona Revised Statutes, is amended to  
3 read:

4 5-407. Statement of receipts; expenses; penalty

5 A. On or before the twentieth day after the end of every reporting  
6 period designated for the class of the license each licensee shall file with  
7 the licensing authority upon forms prescribed by the licensing authority a  
8 financial report which is signed and sworn to by the proceeds coordinator  
9 showing the amount of the gross receipts derived during the reporting period  
10 from games of bingo, the expenses paid, a brief description of the  
11 classification of such expenses, the ratio of net proceeds to the adjusted  
12 gross receipts received by the licensee during the reporting period, the name  
13 and address of each person to whom has been paid three hundred dollars or  
14 more and the purpose of such expenditure, the net proceeds derived from each  
15 such game of bingo and the uses to which such net proceeds have been or are  
16 to be applied. Each licensee shall maintain and keep such books and records  
17 as may be necessary to substantiate the particulars of each such report.

18 B. Except for class A licensees, if the net proceeds derived from the  
19 games of bingo for any six consecutive months do not amount to at least fifty  
20 per cent of adjusted gross receipts for those months in total, it shall be  
21 presumed that the expenses incurred for goods, wares, merchandise and  
22 services rendered are not bona fide and reasonable, and the operation of the  
23 game is deemed to be against public policy. If the net proceeds of the games  
24 operated by a licensee are less than fifty per cent of the adjusted gross  
25 receipts in any six consecutive months, the license may be revoked.

26 C. The failure to file reports within forty-five days after their due  
27 date, or if reports are not fully, accurately and truthfully completed, may  
28 be the basis of the revocation of the license. If the licensee fails to make  
29 and file a return on or before the due date, unless the failure is due to  
30 reasonable cause, a penalty equal to five per cent of the amount found to be  
31 due or remaining due under subsection H of this section shall be added to  
32 that amount for each month or fraction of a month between the due date of the  
33 return and the date on which filed, plus interest at a rate determined  
34 pursuant to section 42-1123. The total penalty shall not exceed twenty-five  
35 per cent of the amount found to be remaining due. The penalty is due and  
36 payable on notice and demand from the licensing authority. If an action has  
37 been filed by the licensing authority for revocation of a license, the court  
38 shall award reasonable attorney fees to the licensing authority as a part of  
39 the proceedings if the licensing authority prevails in the proceedings.

40 D. Except for a class A licensee, all monies collected or received  
41 from the sale of admission, extra regular cards, special game cards, sale of  
42 supplies and all other receipts from the games of bingo shall be deposited  
43 in a special account of the licensee which shall contain only such money.  
44 Except for a class A licensee, all expenses for bingo games, except cash  
45 prizes in the amount of less than one hundred fifty dollars, shall be

1 withdrawn from the licensee's special account by consecutively numbered  
2 checks duly signed by a specified officer or officers of the licensee or the  
3 supervisor and payable to a specific person or organization. Class A  
4 licensees shall pay all bingo game prizes, except cash prizes in an amount  
5 less than one hundred fifty dollars, by check duly signed by a specified  
6 person or persons or the supervisor. A check shall not be drawn to "cash"  
7 or a fictitious payee. A check drawn on a licensee's special account shall  
8 not be payable to the licensee. Checks drawn against the net proceeds in the  
9 special account shall be drawn only for lawful uses and purposes. The  
10 licensee may establish interest bearing accounts which shall contain only  
11 monies transferred from the licensee's special account, but all monies,  
12 interest and other proceeds shall be redeposited to the special account  
13 before being used for lawful uses and purposes.

14 E. A licensee shall maintain a permanent record containing the  
15 signature of each player who receives a cash prize from such licensee and the  
16 amount of the cash prize awarded to such player.

17 F. The net profits after they have been given over to another  
18 organization shall not be used by the donee organization to pay any person  
19 for services rendered or materials purchased in connection with the  
20 conducting of bingo by the donor organization.

21 G. Expenses shall not be incurred or paid in connection with holding,  
22 operating or conducting any game of bingo pursuant to any license, except  
23 bona fide expenses of a reasonable amount. Expenses may be incurred only for  
24 the following purposes:

- 25 1. The purchase of goods, wares and merchandise furnished.
- 26 2. Payment for services rendered.
- 27 3. Rent.
- 28 4. Accountants' fees.
- 29 5. License fees.
- 30 6. Utility expenses.
- 31 7. Security guards.
- 32 8. Compensation not to exceed THE current federal minimum wage plus  
33 twenty per cent.

34 9. MORTGAGE PAYMENTS WHEN A NONPROFIT CHARITABLE ORGANIZATION LICENSEE  
35 IS USING THE BUILDING OR PREMISES FOR BOTH BINGO AND FOR THE LICENSEE'S BONA  
36 FIDE CHARITY.

37 ~~9.~~ 10. Advertising. In this subsection:

38 (a) "Goods, wares and merchandise" means prizes, equipment and  
39 articles of a minor nature such as pencils, crayons, tickets, envelopes,  
40 paper clips and coupons necessary for the conduct of games of bingo.

41 (b) "Services rendered" means repair to equipment, reasonable  
42 compensation to bookkeepers or accountants, not more than two in the  
43 aggregate, for services in preparing financial reports and a reasonable  
44 amount for janitorial service and security guards. Services rendered do not  
45 include and no item of expense may be incurred or paid for service of any

1 nature whatever rendered by a member or new member, including, without  
2 limitation except as provided by paragraph 8 of this subsection, equipment  
3 repair, bookkeeping, accounting, janitorial service, security guard service  
4 or operating, conducting or managing a bingo game or providing any  
5 professional or consultation service related to bingo.

6 H. In lieu of the taxes collected under title 42, chapter 5, article  
7 1 there shall be paid to the state licensing authority a tax in the amount  
8 prescribed in section 5-414. The taxes collected pursuant to this section  
9 shall be deposited in the state general fund. All administrative receipts,  
10 including license fees, penalties and interest, collected by the state  
11 pursuant to this article shall be deposited in the state general fund.

12 I. Each licensee, at the time each financial report is submitted to  
13 the licensing authority, shall pay to the order of the licensing authority  
14 the amount of tax provided in subsection H of this section.

15 Sec. 2. Section 15-994, Arizona Revised Statutes, is amended to read:

16 15-994. Tax levy; county equalization assistance for education

17 A. The board of supervisors of each county shall annually, at the time  
18 of levying other taxes, levy a county equalization assistance for education  
19 tax on the property within the county. The tax levy for county equalization  
20 assistance for education shall be at a rate of ~~.5271 cents per one hundred~~  
21 ~~dollars of assessed valuation~~ DETERMINED PURSUANT TO SECTION 41-1276. The  
22 tax levy provided for in this section shall not be subject to title 42,  
23 chapter 17, articles 2 and 3. Except as provided in section 15-365, the  
24 county treasurer shall apportion all monies collected from the county  
25 equalization assistance for education tax levy to the school districts within  
26 the county in accordance with section 15-971, subsection C at the same time  
27 as other tax levy monies are apportioned as provided in section 42-18001.

28 B. At the same time the county assessor is required to transmit values  
29 to the county school superintendent as provided in section 42-17052, the  
30 assessor of each county shall provide in electronic format to the  
31 superintendent of public instruction the assessed valuation used for  
32 determining the primary property tax rate and the secondary property tax rate  
33 for each school district in the county. On or before January 15 the county  
34 assessor of each county shall provide in electronic format to the  
35 superintendent of public instruction the actual assessed valuation used for  
36 determining the primary property tax rate and the secondary property tax rate  
37 for each school district in the county including any revisions made due to  
38 changes in the valuation of unsecured personal property after the tax rates  
39 were determined.

40 Sec. 3. Section 42-1116, Arizona Revised Statutes, as amended by Laws  
41 2000, chapter 193, section 479, is amended to read:

42 42-1116. Disposition of tax revenues

43 A. The department shall promptly deposit, pursuant to sections 35-146  
44 and 35-147, all monies it collects from the taxes administered pursuant to  
45 this article except the telecommunication services excise tax, separately

1 accounting for each type of tax and each tax classification within each type  
2 of tax. At the same time the department of revenue shall also furnish copies  
3 of the transmittal schedules to the director of the department of  
4 administration.

5 B. EXCEPT AS PROVIDED BY SUBSECTION C OF THIS SECTION, the department  
6 shall deposit all monies and remittances received under this section to the  
7 credit of the following specific funds and accounts:

8 1. Amounts sufficient to meet the requirements for tax refunds to the  
9 tax refund account established in section 42-1117.

10 2. Amounts sufficient to meet the requirements of urban revenue  
11 sharing to the urban revenue sharing fund established in section 43-206.

12 3. Amounts collected pursuant to chapter 5, articles 1, 5 and 9 of  
13 this title and section 42-5352, subsection A, to the transaction privilege  
14 and severance tax clearing account established in section 42-5029.

15 4. Through June 30, 2000 amounts sufficient to meet the requirements  
16 of section 42-3104 to the corrections fund.

17 5. Amounts sufficient to meet the requirements of section 49-282,  
18 subsection B relating to the water quality assurance revolving fund.

19 6. All remaining monies to the state general fund.

20 C. FROM THE MONIES AND REMITTANCES RECEIVED UNDER THIS SECTION, EACH  
21 MONTH BEGINNING JULY, 2001 THE STATE TREASURER SHALL TRANSMIT TO THE TOURISM  
22 AND SPORTS AUTHORITY, ESTABLISHED BY TITLE 5, CHAPTER 8, FOR DEPOSIT IN ITS  
23 FACILITY REVENUE CLEARING ACCOUNT ESTABLISHED BY SECTION 5-834, THE GREATER  
24 OF:

25 1. ONE-TWELFTH OF THE AMOUNT REPORTED BY THE DEPARTMENT PURSUANT TO  
26 SECTION 43-209.

27 2. TWO HUNDRED NINETY-TWO THOUSAND DOLLARS PER MONTH FOR THE FIRST  
28 TWELVE MONTH PERIOD, INCREASED IN EACH SUBSEQUENT TWELVE MONTH PERIOD BY AN  
29 ADDITIONAL EIGHT PER CENT OVER THE PRIOR TWELVE MONTHS' DISTRIBUTION.

30 Sec. 4. Repeal

31 Section 42-1116, Arizona Revised Statutes, as amended by Laws 2000,  
32 chapter 372, section 4, is repealed.

33 Sec. 5. Section 42-1122, Arizona Revised Statutes, is amended to read:

34 42-1122. Setoff for debts to state agencies and courts;  
35 revolving fund; definitions

36 A. The department shall establish a liability setoff program by which  
37 refunds under sections 42-1118, AND 43-1072 and ~~43-1073~~ may be used to  
38 satisfy debts which the taxpayer owes this state or a court. The program  
39 shall comply with the standards and requirements prescribed by this section.

40 B. If a taxpayer owes an agency or court a debt, the agency or court  
41 may, by November 1 of each year, notify the department, furnishing at least  
42 the state agency, court or program identifier, the first name, last name,  
43 middle initial and social security number of the debtor, and the amount of  
44 the debt.

1 C. The department shall match the information submitted by the agency  
2 or court with taxpayers who qualify for refunds under section 42-1118 and:

3 1. Notify the agency or court of a potential match, the taxpayer's  
4 home address and any additional taxpayer identification numbers used by the  
5 taxpayer. Even if the taxpayer is not entitled to a refund, the department  
6 of revenue shall provide to the department of economic security, for child  
7 support purposes only, the home address of a taxpayer whose debt for overdue  
8 support is referred for setoff and any additional taxpayer identification  
9 numbers used by the taxpayer.

10 2. Request final agency or court confirmation within ten days of the  
11 match and of the continuation of the debt. If the agency or court fails to  
12 provide confirmation within forty-five days after the request, the department  
13 shall release the refund to the taxpayer.

14 D. An agency or court may submit updated information, additions,  
15 deletions and other changes on a quarterly or more frequent basis, at the  
16 convenience of the agency or court.

17 E. On confirmation pursuant to subsection C, paragraph 2 of this  
18 section, the agency shall notify the taxpayer, by mail to the most recent  
19 address provided by the taxpayer to the department, of the intention to set  
20 off the debt against the refund due and of the taxpayer's right to appeal to  
21 the appropriate court, or to request a review by the agency pursuant to  
22 agency rule, within thirty days of the mailing of the notice. The basis for  
23 a request for review shall not include the validity of the claim if its  
24 validity has been established at an agency hearing, by judicial review in a  
25 court of competent jurisdiction in this or any other state or by final  
26 administrative decision and shall state with specificity why the taxpayer  
27 claims the obligation does not exist or why the amount of the obligation is  
28 incorrect. If the setoff accounts for only a portion of the refund due, the  
29 remainder of the refund shall be sent to the taxpayer.

30 F. If, within thirty days of the mailing of the notice, the taxpayer  
31 requests a review by the agency or provides the agency with proof that an  
32 appeal has been taken to the appropriate court, the agency shall immediately  
33 notify the department and the setoff procedure shall be stayed pending  
34 resolution of the review or appeal.

35 G. If the department does not receive notice of a timely appeal, it  
36 shall draw and deliver a warrant in the amount of the available refund up to  
37 the amount of the debt in favor of the agency and notify the taxpayer of the  
38 action by mail.

39 H. The provisions of subsections E, F and G of this section do not  
40 apply to a debt imposed by a court. A court shall not use this section to  
41 satisfy a judgment or payment of a fine or civil penalty until the judgment  
42 has become final or until the time to appeal the imposition of a fine or  
43 civil penalty has expired.

44 I. A revolving fund is established to recover and pay the cost of  
45 operating the setoff program under this section. The department may

1 prescribe a fee to be collected from each agency or court utilizing the  
2 setoff procedure or from the taxpayer, and the amount shall be deposited in  
3 the fund. The amount of the fee shall reasonably reflect the actual cost of  
4 the service provided. Beginning July 1, 1999, monies in the revolving fund  
5 are subject to legislative appropriation.

6 J. If agencies or courts have two or more delinquent accounts for the  
7 same taxpayer, the refund may be apportioned among them pursuant to rules  
8 prescribed by the department of revenue, except that a setoff to the  
9 department of economic security for overdue support has priority over all  
10 other setoffs.

11 K. If the refund is insufficient to satisfy the entire debt, the  
12 remainder of the debt may be collected by the agency or court as provided by  
13 law or resubmitted for setoff against subsequent refunds.

14 L. In the case of a refund that is intercepted in error under this  
15 section, the taxpayer shall be reimbursed by the agency or court with  
16 interest pursuant to section 42-1123.

17 M. Except as is reasonably necessary to accomplish the purposes of  
18 this section, the department shall not disclose under this section any  
19 information in violation of chapter 2, article 1 of this title.

20 N. An agency or court shall not enter an agreement with a debtor for:

21 1. The assignment of any prospective refund to the agency or court in  
22 satisfaction of the debt.

23 2. Payment of the debt if the debt has been confirmed to the  
24 department for setoff under subsection C, paragraph 2 of this section.

25 O. If a tax refund is based on a joint income tax return and the  
26 department of economic security receives a written claim from the  
27 nonobligated spouse within forty-five days after the notice of a setoff for  
28 overdue child support, the setoff only applies to that portion of the refund  
29 due to the obligor. The nonobligated spouse shall provide to the department  
30 of economic security copies of both the obligated and nonobligated spouse's  
31 federal W-2 forms and evidence of estimated tax payments supporting the  
32 proportionate share of each spouse's payment of tax. The department of  
33 economic security shall retain the amount of the set off refund due to the  
34 obligated spouse determined by a proration based on the tax payments of each  
35 spouse by estimated tax payment or tax withheld from wages.

36 P. In this section:

37 1. "Agency" means a department, agency, board, commission or  
38 institution of this state. Agency also means a corporation that is under  
39 contract with this state and that provides a service that would otherwise be  
40 provided by a department, agency, board, commission or institution of this  
41 state, if the contract specifically authorizes participation in the liability  
42 setoff program and the attorney general's office has reviewed the contract  
43 and approves such authorization. The participation in the liability setoff  
44 program shall be limited to debt related to the services the corporation  
45 provides for or on behalf of this state.

1           2. "Court" means all courts of record, justice courts, municipal  
2 courts and police courts.

3           3. "Debt" means an amount over fifty dollars owed to an agency or  
4 court by a taxpayer and may include a judgment in favor of this state or a  
5 political subdivision of this state, interest, penalties, charges, costs,  
6 fees, fines, civil penalties, surcharges, assessments, administrative charges  
7 or any other amount. Debt also includes monies owed by a taxpayer for  
8 overdue support and referred to the department of economic security for  
9 collection.

10           4. "Overdue support" means a delinquency in court ordered payments for  
11 support of a child or for spousal maintenance to the parent with whom the  
12 child is living if child support is also being enforced pursuant to an  
13 assignment or application filed under 42 United States Code section 654(6).

14           Sec. 6. Section 42-1125, Arizona Revised Statutes, is amended to read:

15           42-1125. Civil penalties; definition

16           A. If a taxpayer fails to make and file a return for a tax  
17 administered pursuant to this article on or before the due date of the return  
18 or the due date as extended by the department, then, unless it is shown that  
19 the failure is due to reasonable cause and not due to wilful neglect, four  
20 and one-half per cent of the tax required to be shown on such return shall  
21 be added to the tax for each month or fraction of a month elapsing between  
22 the due date of the return and the date on which it is filed. The total  
23 penalty shall not exceed twenty-five per cent of the tax found to be  
24 remaining due. The penalty so added to the tax is due and payable on notice  
25 and demand from the department. For the purpose of computing the penalty  
26 imposed under this subsection, the amount required to be shown as tax on a  
27 return shall be reduced by the amount of any part of the tax which is paid  
28 on or before the beginning of such month and by the amount of any credit  
29 against the tax which may be claimed on the return. If the amount required  
30 to be shown as tax on a return is less than the amount shown as tax on such  
31 return the penalty described in this subsection shall be applied by  
32 substituting such lower amount.

33           B. If a taxpayer fails or refuses to file a return on notice and  
34 demand by the department, the taxpayer shall pay a penalty of twenty-five per  
35 cent of the tax, which is due and payable on notice and demand by the  
36 department, in addition to any penalty prescribed by subsection A of this  
37 section, unless it is shown that the failure is due to reasonable cause and  
38 not due to wilful neglect. This penalty is payable on notice and demand from  
39 the department.

40           C. If a taxpayer fails or refuses to furnish any information requested  
41 in writing by the department, the department may add a penalty of twenty-five  
42 per cent of the amount of any deficiency tax assessed by the department  
43 concerning the assessment of which the information was required, unless it  
44 is shown that the failure is due to reasonable cause and not due to wilful  
45 neglect.



D. If a person fails to pay the amount shown as tax on any return within the time prescribed, a penalty of one-half of one per cent, not to exceed a total of ten per cent, shall be added to the amount shown as tax for each month or fraction of a month during which the failure continues, unless it is shown that the failure is due to reasonable cause and not due to wilful neglect. IF THE DEPARTMENT DETERMINES THAT THE PERSON'S FAILURE TO PAY WAS DUE TO REASONABLE CAUSE AND NOT DUE TO WILFUL NEGLECT AND THAT A PAYMENT AGREEMENT PURSUANT TO SECTION 42-2057 IS APPROPRIATE, THE DEPARTMENT SHALL NOT IMPOSE THE PENALTY UNLESS THE TAXPAYER FAILS TO COMPLY WITH THE PAYMENT AGREEMENT. If the taxpayer is also subject to a penalty under subsection A of this section for the same tax period, the total penalties under subsection A of this section and this subsection shall not exceed twenty-five per cent. For the purpose of computing the penalty imposed under this subsection:

1. The amount shown as tax on a return shall be reduced by the amount of any part of the tax that is paid on or before the beginning of that month and by the amount of any credit against the tax that may be claimed on the return.

2. If the amount shown as tax on a return is greater than the amount required to be shown as tax on that return, the penalty shall be applied by substituting the lower amount.

E. If a person fails to pay any amount required to be shown on any return that is not so shown within twenty-one calendar days after the date of notice and demand, a penalty of one-half of one per cent, not to exceed a total of ten per cent, shall be added to the amount of tax for each month or fraction of a month during which the failure continues, unless it is shown that the failure is due to reasonable cause and not due to wilful neglect. If the taxpayer is also subject to penalty under subsection A of this section for the same tax period, the total penalties under subsection A of this section and this subsection shall not exceed twenty-five per cent. For the purpose of computing the penalty imposed under this subsection, any amount required to be shown on any return shall be reduced by the amount of any part of the tax that is paid on or before the beginning of that month and by the amount of any credit against the tax that may be claimed on the return.

F. In the case of a deficiency, for which a determination is made of an additional amount due, which is due to negligence but without intent to defraud, the person shall pay a penalty of ten per cent of the amount of the deficiency.

G. If part of a deficiency is due to fraud with intent to evade tax, fifty per cent of the total amount of the tax, in addition to the deficiency, interest and other penalties provided in this section, shall be assessed, collected and paid as if it were a deficiency.

H. If the amount, whether determined by the department or the taxpayer, required to be withheld by the employer pursuant to title 43,

1 chapter 4 is not paid to the department on or before the date prescribed for  
2 its remittance, the department may add a penalty of twenty-five per cent of  
3 the amount required to be withheld and paid, unless it is shown that the  
4 failure is due to reasonable cause and not due to wilful neglect.

5 I. A person who, with or without intent to evade any requirement of  
6 this article or any lawful administrative rule of the department of revenue  
7 under this article, fails to file a return or to supply information required  
8 under this article or who, with or without such intent, makes, prepares,  
9 renders, signs or verifies a false or fraudulent return or statement or  
10 supplies false or fraudulent information shall pay a penalty of not more than  
11 one thousand dollars. This penalty shall be recovered by the department of  
12 law in the name of this state by an action in any court of competent  
13 jurisdiction.

14 J. If the taxpayer files what purports to be a return of any tax  
15 administered pursuant to this article but which is frivolous or which is made  
16 with the intent to delay or impede the administration of the tax laws, that  
17 person shall pay a penalty of five hundred dollars.

18 K. If a taxpayer who is required to file or provide an information  
19 return under this title or title 43 fails to file the return at the  
20 prescribed time or files a return which fails to show the information  
21 required, that taxpayer shall pay a penalty of five hundred dollars unless  
22 it is shown that the failure is due to reasonable cause and not due to wilful  
23 neglect.

24 L. If it appears to the superior court that proceedings before it have  
25 been instituted or maintained by a taxpayer primarily for delay or that the  
26 taxpayer's position is frivolous or groundless, the court may award damages  
27 in an amount not to exceed one thousand dollars to this state. Damages so  
28 awarded shall be collected as a part of the tax.

29 M. A person who is required under section 43-413 to furnish a  
30 statement to an employee and who wilfully furnishes a false or fraudulent  
31 statement, or who wilfully fails to furnish a statement required by section  
32 43-413, is for each such failure subject to a penalty of fifty dollars.

33 N. A person who is required to collect, truthfully account for and pay  
34 a tax administered pursuant to this article and who wilfully fails to collect  
35 the tax or truthfully account for and pay the tax, or wilfully attempts in  
36 any manner to evade or defeat the tax or its payment, is, in addition to  
37 other penalties provided by law, liable for a penalty equal to the total  
38 amount of the tax evaded, not collected or not accounted for and paid. No  
39 other penalty under this section relating to failure to pay tax may be  
40 imposed for any offense to which this subsection applies.

41 O. Unless due to reasonable cause and not to wilful neglect:

42 1. A person who fails to provide his taxpayer identification number  
43 in any return, statement or other document as required by section 42-1105,  
44 subsection A shall pay a penalty of five dollars for each such failure.

1           2. A person, when filing any return, statement or other document for  
2 compensation on behalf of a taxpayer, who fails to include that person's own  
3 taxpayer identification number and the taxpayer's identification number shall  
4 pay a penalty of fifty dollars for each such failure.

5           3. A person, when filing any return, statement or other document  
6 without compensation on behalf of a taxpayer, who fails to include that  
7 person's own taxpayer identification number and the taxpayer's identification  
8 number is not subject to a penalty.

9 No other penalty under this section may be imposed if the only violation is  
10 failure to provide taxpayer identification numbers.

11          P. If a taxpayer fails to pay the full amount of estimated tax  
12 required by title 43, chapter 5, article 6, a penalty is assessed equal to  
13 the amount of interest that would otherwise accrue under section 42-1123 on  
14 the amount not paid for the period of nonpayment, not exceeding ten per cent  
15 of the amount not paid. The penalty prescribed by this subsection is in lieu  
16 of any other penalty otherwise prescribed by this section and in lieu of  
17 interest prescribed by section 42-1123.

18          Q. The department of law may, with the consent of the department of  
19 revenue, compromise any penalty for which it may bring an action under this  
20 section.

21          R. Penalties shall not be assessed under subsection D of this section  
22 on additional amounts of tax paid by a taxpayer at the time the taxpayer  
23 voluntarily files an amended return. This subsection does not apply if:

24           1. The taxpayer is under audit by the department.

25           2. The amended return was filed on demand or request by the  
26 department.

27           3. The total additional tax paid and due for the tax period represents  
28 a substantial understatement of tax liability. For the purposes of this  
29 paragraph, there is a substantial understatement of tax for any tax period  
30 if the amount of the understatement for the tax period exceeds the greater  
31 of ten per cent of the actual tax liability for the tax period or two  
32 thousand dollars.

33          S. For the purposes of this section, and only as applied to the taxes  
34 imposed by chapter 5, articles 1 through 6 and chapter 6, articles 1, 2 and  
35 3 of this title, "reasonable cause" means a reasonable basis for the taxpayer  
36 to believe that the tax did not apply to the business activity or the  
37 storage, use or consumption of the taxpayer's tangible personal property in  
38 this state.

39          Sec. 7. Section 42-2003, Arizona Revised Statutes, is amended to read:  
40          42-2003. Authorized disclosure of confidential information

41          A. Confidential information relating to:

42           1. A taxpayer may be disclosed to the taxpayer, its successor in  
43 interest or a designee of the taxpayer who is authorized in writing by the  
44 taxpayer.

1           2. A corporate taxpayer may be disclosed to any principal officer of  
2 the corporation.

3           3. A partnership may be disclosed to any partner of the partnership.  
4 This exception does not include disclosure of confidential information of a  
5 particular partner unless otherwise authorized.

6           4. An estate may be disclosed to the personal representative of the  
7 estate and to any heir, next of kin or beneficiary under the will of the  
8 decedent if the department finds that the heir, next of kin or beneficiary  
9 has a material interest which will be affected by the confidential  
10 information.

11           5. A trust may be disclosed to the trustee or trustees, jointly or  
12 separately, and to the grantor or any beneficiary of the trust if the  
13 department finds that the grantor or beneficiary has a material interest  
14 which will be affected by the confidential information.

15           6. Any taxpayer may be disclosed if the taxpayer has waived any rights  
16 to confidentiality either in writing or on the record in any administrative  
17 or judicial proceeding.

18           7. A claimant may be disclosed to the claimant, its successor in  
19 interest or a designee of the claimant pursuant to written authorization by  
20 the claimant.

21           8. Confidential information may be disclosed to:

22           1. Any employee of the department whose official duties involve tax  
23 or unclaimed property administration.

24           2. The office of the attorney general solely for its use in  
25 preparation for, or in an investigation which may result in, any proceeding  
26 involving tax or unclaimed property administration before the department or  
27 any other agency or board of this state, or before any grand jury or any  
28 state or federal court.

29           3. The department of liquor licenses and control for its use in  
30 determining whether a spirituous liquor licensee has paid all transaction  
31 privilege taxes and affiliated excise taxes incurred as a result of the sale  
32 of spirituous liquor at the licensed establishment and imposed on the  
33 licensed establishments by this state and its political subdivisions.

34           4. Other state tax or unclaimed property officials of this state whose  
35 official duties require the disclosure for proper tax or unclaimed property  
36 administration purposes if the information is sought in connection with an  
37 investigation or any other proceeding conducted by the official. Any  
38 disclosure is limited to information of a taxpayer or claimant who is being  
39 investigated or who is a party to a proceeding conducted by the official.

40           5. The following agencies, officials and organizations, if they grant  
41 substantially similar privileges to the department for the type of  
42 information being sought, pursuant to statute and a written agreement between  
43 the department and the foreign country, agency, state, Indian tribe or  
44 organization:

1 (a) The United States internal revenue service, United States bureau  
2 of alcohol, tobacco and firearms, United States drug enforcement agency and  
3 federal bureau of investigation.  
4 (b) A state tax or unclaimed property official of another state.  
5 (c) An organization of states that operates an information exchange  
6 for tax administration purposes.  
7 (d) An agency, official or organization of a foreign country with  
8 responsibilities that are comparable to those listed in subdivision (a), (b)  
9 or (c) of this paragraph.  
10 (e) An agency, official or organization of an Indian tribal government  
11 with responsibilities comparable to the responsibilities of the agencies,  
12 officials or organizations identified in subdivision (a), (b) or (c) of this  
13 paragraph.  
14 6. The auditor general, in connection with any audit of the department  
15 subject to the restrictions in section 42-2002, subsection C.  
16 7. Any person to the extent necessary for effective tax or unclaimed  
17 property administration in connection with:  
18 (a) The processing, storage, transmission, DESTRUCTION and  
19 reproduction of the information.  
20 (b) The programming, maintenance, repair, testing and procurement of  
21 equipment for purposes of tax administration.  
22 8. The office of administrative hearings relating to taxes  
23 administered by the department pursuant to section 42-1101, but the  
24 department shall not disclose any confidential information:  
25 (a) Regarding income tax, withholding tax or estate tax.  
26 (b) On any tax issue relating to information associated with the  
27 reporting of income tax, withholding tax or estate tax.  
28 9. The United States treasury inspector general for tax administration  
29 for the purpose of reporting a violation of internal revenue code section  
30 7213(a) 7213A (26 United States Code section 7213a 7213A), unauthorized  
31 inspection of returns or return information.  
32 C. Confidential information may be disclosed in any state or federal  
33 judicial or administrative proceeding pertaining to tax or unclaimed property  
34 administration if the taxpayer or claimant is a party to the proceeding.  
35 D. Identity information may be disclosed for purposes of notifying:  
36 1. Persons entitled to tax refunds if the department is unable to  
37 locate the persons after reasonable effort.  
38 2. Owners of unclaimed property pursuant to section 44-309.  
39 E. The department, upon the request of any person, shall provide the  
40 names and addresses of bingo licensees as defined in section 5-401 or verify  
41 whether or not a person has a privilege license and number or withholding  
42 license and number.  
43 F. A department employee, in connection with the official duties  
44 relating to any audit, collection activity or civil or criminal  
45 investigation, may disclose return information to the extent that disclosure

1 is necessary to obtain information which is not otherwise reasonably  
2 available. These official duties include the correct determination of and  
3 liability for tax, the amount to be collected or the enforcement of other  
4 state tax revenue laws.

5 G. If an organization is exempt from this state's income tax as  
6 provided in section 43-1201 for any taxable year, the name and address of the  
7 organization and the application filed by the organization upon which the  
8 department made its determination for exemption together with any papers  
9 submitted in support of the application and any letter or document issued by  
10 the department concerning the application are open to public inspection.

11 H. Confidential information relating to transaction privilege tax, use  
12 tax and rental occupancy tax may be disclosed to any county, city or town tax  
13 official if the information relates to a taxpayer who is or may be taxable  
14 by the county, city or town. Any taxpayer information released by the  
15 department to the county, city or town:

16 1. May only be used for internal purposes.

17 2. May not be disclosed to the public in any manner that does not  
18 comply with confidentiality standards established by the department. The  
19 county, city or town shall agree in writing with the department that any  
20 release of confidential information that violates the confidentiality  
21 standards adopted by the department will result in the immediate suspension  
22 of any rights of the county, city or town to receive taxpayer information  
23 under this subsection.

24 1. The department may disclose statistical information gathered from  
25 confidential information if it does not disclose confidential information  
26 attributable to any one taxpayer or claimant of unclaimed property. In order  
27 to comply with the requirements of section 42-5029, subsection A, paragraph  
28 3, the department may disclose to the state treasurer statistical information  
29 gathered from confidential information, even if it discloses confidential  
30 information attributable to a taxpayer.

31 J. Except as provided in section 42-2002, subsection B, confidential  
32 information, described in section 42-2001, paragraph 3, subdivision (a), item  
33 (iii), may be disclosed to law enforcement agencies for law enforcement  
34 purposes.

35 K. The department may disclose and publish the names of corporations,  
36 the dividends of which qualify for the subtraction provided by section  
37 43-1128.

38 L. The department may provide transaction privilege tax license  
39 information to property tax officials in a county for the purpose of  
40 identification and verification of the tax status of commercial property.

41 M. The department may provide transaction privilege tax, luxury tax,  
42 use tax, property tax and severance tax information to the ombudsman-citizens  
43 aide pursuant to title 41, chapter 8, article 5.

44 N. Except as provided in section 42-2002, subsection C, a court may  
45 order the department to disclose confidential information pertaining to a

1 party to an action. An order shall be made only upon a showing of good cause  
2 and that the party seeking the information has made demand upon the taxpayer  
3 or claimant for the information.

4 O. This section does not prohibit the disclosure by the department of  
5 any information or documents submitted to the department by a bingo licensee.  
6 Before disclosing the information the department shall obtain the name and  
7 address of the person requesting the information.

8 P. If the department is required or permitted to disclose confidential  
9 information, it may charge the person or agency requesting the information  
10 for the reasonable cost of its services.

11 Q. Except as provided in section 42-2002, subsection C, the department  
12 of revenue shall release confidential information as requested by the  
13 department of economic security pursuant to section 42-1122 or 46-291.  
14 Information disclosed under this subsection is limited to the same type of  
15 information that the United States internal revenue service is authorized to  
16 disclose under section 6103(l)(6) of the internal revenue code.

17 R. To comply with the requirements of section 42-5031, the department  
18 may disclose to the state treasurer, to the county stadium district board of  
19 directors and to any city or town tax official that is part of the county  
20 stadium district confidential information attributable to a taxpayer's  
21 business activity conducted in the county stadium district.

22 S. THE DEPARTMENT SHALL RELEASE CONFIDENTIAL INFORMATION AS REQUESTED  
23 BY THE ATTORNEY GENERAL FOR PURPOSES OF DETERMINING COMPLIANCE WITH SECTION  
24 44-7101. INFORMATION DISCLOSED UNDER THIS SUBSECTION IS LIMITED TO LUXURY  
25 TAX INFORMATION RELATING TO TOBACCO MANUFACTURERS, DISTRIBUTORS, WHOLESALERS  
26 AND RETAILERS AND INFORMATION COLLECTED BY THE DEPARTMENT PURSUANT TO SECTION  
27 44-7101(2)(j).

28 Sec. 8. Section 42-5014, Arizona Revised Statutes, is amended to read:

29 42-5014. Return and payment of tax; estimated tax; extensions;  
30 abatements

31 A. Except as provided in subsection B, C or D of this section, the  
32 taxes levied under this article are due and payable monthly IN THE FORM  
33 REQUIRED BY SECTION 42-5018 FOR THE AMOUNT OF THE TAX, TO THE DEPARTMENT, on  
34 or before the twentieth day of the month next succeeding the month in which  
35 the tax accrues and are delinquent:

36 1. If not postmarked on or before the twenty-fifth day of that month.

37 2. If not received by the department on or before the business day  
38 preceding the last business day of that month for those taxpayers electing  
39 to file by mail.

40 3. If not received by the department on the business day preceding the  
41 last business day of that month for those taxpayers electing to file in  
42 person.

43 4. If not received by the department on or before the twenty-fifth day  
44 of that month for those taxpayers required or electing to pay in immediately  
45 available monies pursuant to section 42-1129.

1           B. For tax reporting periods that begin from and after December 31,  
2 1998, the department may, for any taxpayer whose estimated annual liability  
3 for taxes imposed by this article is between five hundred dollars and one  
4 thousand two hundred fifty dollars, authorize such taxpayer to pay such taxes  
5 on a quarterly basis. For tax reporting periods that begin from and after  
6 December 31, 1998, the department may, for any taxpayer whose estimated  
7 annual liability for taxes imposed by this article is five hundred dollars  
8 or less, authorize such taxpayer to pay such taxes on an annual basis.

9           C. The department may require a taxpayer whose business is of a  
10 transient character to file the return and remit the taxes imposed by this  
11 article on a daily, a weekly or a transaction by transaction basis, and those  
12 returns and payments are due and payable on the date fixed by the department  
13 without a grace period otherwise allowed by this section. For purposes of  
14 this subsection, "business of a transient character" means sales activity by  
15 a taxpayer not regularly engaged in selling within the state conducted from  
16 vehicles, portable stands, rented spaces, structures or booths, or  
17 concessions at fairs, carnivals, circuses, festivals or similar activities  
18 for not more than thirty consecutive days.

19           D. If the business entity under which a taxpayer reports and pays  
20 income tax under title 43 has an annual total tax liability under this  
21 article, article 6 of this chapter and chapter 6, article 3 of this title of  
22 one hundred thousand dollars or more, based on the actual tax liability in  
23 the preceding calendar year, regardless of the number of offices at which the  
24 taxes imposed by this article, article 6 of this chapter or chapter 6,  
25 article 3 of this title are collected, or if the taxpayer can reasonably  
26 anticipate such liability in the current year, the taxpayer shall report on  
27 a form prescribed by the department and pay an estimated tax payment each  
28 June. Any other taxpayer may voluntarily elect to pay the estimated tax  
29 payment pursuant to this subsection. The payment shall be made on or before  
30 June 20 and is delinquent if not postmarked on or before that date or if not  
31 received by the department on or before the business day preceding the last  
32 business day of June for those taxpayers electing to file by mail, or  
33 delinquent if not received by the department on the business day preceding  
34 the last business day of June for those taxpayers electing to file in person.  
35 A taxpayer paying by using the method prescribed in subsection A, paragraph  
36 4 of this section shall make the estimated tax payments on or before June 25,  
37 and the payment is delinquent if not transferred by the last day to make the  
38 estimated payment. The estimated tax paid shall be credited against the  
39 taxpayer's tax liability under this article, article 6 of this chapter and  
40 chapter 6, article 3 of this title for the month of June for the current  
41 calendar year. The estimated tax payment shall equal either:

42           1. One-half of the actual tax liability under this article plus  
43 one-half of any tax liability under article 6 of this chapter and chapter 6,  
44 article 3 of this title for May of the current calendar year.



1           2. The actual tax liability under this article plus any tax liability  
2 under article 6 of this chapter and chapter 6, article 3 of this title for  
3 the first fifteen days of June of the current calendar year.

4           E. ~~The taxpayer shall on or before the day on which the taxpayer's tax~~  
5 ~~payments are due and payable prepare a return showing the amount of the tax~~  
6 ~~for which the taxpayer is liable for the preceding month, and shall mail or~~  
7 ~~deliver the return at the same time the tax is remitted, in the form required~~  
8 ~~by section 42-5018, for the amount of the tax, to the department IN THE SAME~~  
9 ~~MANNER AND TIME AS PRESCRIBED FOR THE PAYMENT OF TAXES IN SUBSECTION A OF~~  
10 ~~THIS SECTION. The return shall be verified by the oath of the taxpayer or~~  
11 ~~an authorized agent or as prescribed by the department pursuant to~~  
12 ~~section 42-1105, subsection B.~~

13           F. Any person taxable under this article making cash and credit sales  
14 shall report such cash and credit sales separately and upon making  
15 application may obtain from the department an extension of time for payment  
16 of taxes due on the credit sales. The extension shall be granted by the  
17 department under such rules as the department prescribes. When the extension  
18 is granted, the taxpayer shall thereafter include in each monthly report all  
19 collections made on such credit sales during the month next preceding, and  
20 shall pay the taxes due at the time of filing such report.

21           G. The returns required under this article shall be made upon forms  
22 prescribed by the department.

23           H. The department, for good cause, may extend the time for making any  
24 return required by this article, and may grant such reasonable additional  
25 time within which to make the return as it deems proper, but the time for  
26 filing the return shall not be extended beyond the first day of the third  
27 month next succeeding the regular due date of the return.

28           I. The department, with the approval of the attorney general, may  
29 abate small tax balances if the administration costs exceed the amount of tax  
30 due.

31           J. For the purposes of subsection D of this section, "taxpayer" means  
32 the business entity under which the business reports and pays state income  
33 taxes regardless of the number of offices at which the taxes imposed by this  
34 article, article 6 of this chapter or chapter 6, article 3 of this title are  
35 collected.

36           Sec. 9. Section 42-5061, Arizona Revised Statutes, is amended to read:  
37           42-5061. Retail classification; definitions

38           A. The retail classification is comprised of the business of selling  
39 tangible personal property at retail. The tax base for the retail  
40 classification is the gross proceeds of sales or gross income derived from  
41 the business. The tax imposed on the retail classification does not apply  
42 to the gross proceeds of sales or gross income from:

43           1. Professional or personal service occupations or businesses which  
44 involve sales or transfers of tangible personal property only as  
45 inconsequential elements.

1           2. Services rendered in addition to selling tangible personal property  
2 at retail.

3           3. Sales of warranty or service contracts. The storage, use or  
4 consumption of tangible personal property provided under the conditions of  
5 such contracts is subject to tax under section 42-5156.

6           4. Sales of tangible personal property by any nonprofit organization  
7 organized and operated exclusively for charitable purposes and recognized by  
8 the United States internal revenue service under section 501(c)(3) of the  
9 internal revenue code.

10          5. Sales to persons engaged in business classified under the  
11 restaurant classification of articles used by human beings for food, drink  
12 or condiment, whether simple, mixed or compounded.

13          6. Business activity which is properly included in any other business  
14 classification which is taxable under article 1 of this chapter.

15          7. The sale of stocks and bonds.

16          8. Drugs and medical oxygen, including delivery hose, mask or tent,  
17 regulator and tank, on the prescription of a member of the medical, dental  
18 or veterinarian profession who is licensed by law to administer such  
19 substances.

20          9. Prosthetic appliances as defined in section 23-501 prescribed or  
21 recommended by a health professional licensed pursuant to title 32, chapter  
22 7, 8, 11, 13, 14, 15, 16, 17 or 29.

23          10. Insulin, insulin syringes and glucose test strips.

24          11. Prescription eyeglasses or contact lenses.

25          12. Hearing aids as defined in section 36-1901.

26          13. Durable medical equipment which has a federal health care financing  
27 administration common procedure code, is designated reimbursable by medicare,  
28 is prescribed by a person who is licensed under title 32, chapter 7, 8, 13,  
29 14, 15, 17 or 29, can withstand repeated use, is primarily and customarily  
30 used to serve a medical purpose, is generally not useful to a person in the  
31 absence of illness or injury and is appropriate for use in the home.

32          14. Sales to nonresidents of this state for use outside this state if  
33 the vendor ships or delivers the tangible personal property out of this  
34 state.

35          15. Food, as provided in and subject to the conditions of article 3 of  
36 this chapter and section 42-5074.

37          16. Items purchased with United States department of agriculture food  
38 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.  
39 958) or food instruments issued under section 17 of the child nutrition act  
40 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code  
41 section 1786).

42          17. Textbooks by any bookstore that are required by any state  
43 university or community college.

44          18. Food and drink to a person who is engaged in business which is  
45 classified under the restaurant classification and which provides such food

1 and drink without monetary charge to its employees for their own consumption  
2 on the premises during the employees' hours of employment.

3 19. Articles of food, drink or condiment and accessory tangible  
4 personal property to a school district if such articles and accessory  
5 tangible personal property are to be prepared and served to persons for  
6 consumption on the premises of a public school within the district during  
7 school hours.

8 20. Lottery tickets or shares pursuant to title 5, chapter 5,  
9 article 1.

10 21. The sale of precious metal bullion and monetized bullion to the  
11 ultimate consumer, but the sale of coins or other forms of money for  
12 manufacture into jewelry or works of art is subject to the tax. In this  
13 paragraph:

14 (a) "Monetized bullion" means coins and other forms of money which are  
15 manufactured from gold, silver or other metals and which have been or are  
16 used as a medium of exchange in this or another state, the United States or  
17 a foreign nation.

18 (b) "Precious metal bullion" means precious metal, including gold,  
19 silver, platinum, rhodium and palladium, which has been smelted or refined  
20 so that its value depends on its contents and not on its form.

21 22. Motor vehicle fuel and use fuel which are subject to a tax imposed  
22 under title 28, chapter 16, article 1 or 2, sales of use fuel to a holder of  
23 a valid single trip use fuel tax permit issued under section 28-5739, sales  
24 of aviation fuel which are subject to the tax imposed under section 28-8344  
25 and sales of jet fuel which are subject to the tax imposed under article 8  
26 of this chapter.

27 23. Tangible personal property sold to a person engaged in the business  
28 of leasing or renting such property under the personal property rental  
29 classification if such property is to be leased or rented by such person.

30 24. Tangible personal property sold in interstate or foreign commerce  
31 if prohibited from being so taxed by the Constitution of the United States  
32 or the constitution of this state.

33 25. Tangible personal property sold to:

34 (a) A qualifying hospital as defined in section 42-5001.

35 (b) A qualifying health care organization as defined in section  
36 42-5001 if the tangible personal property is used by the organization solely  
37 to provide health and medical related educational and charitable services.

38 (c) A qualifying health care organization as defined in section  
39 42-5001 if the organization is dedicated to providing educational,  
40 therapeutic, rehabilitative and family medical education training for blind,  
41 visually impaired and multihandicapped children from the time of birth to age  
42 twenty-one.

43 (d) A qualifying community health center as defined in section  
44 42-5001.

1 (e) A nonprofit charitable organization that has qualified under  
2 section 501(c)(3) of the internal revenue code and that regularly serves  
3 meals to the needy and indigent on a continuing basis at no cost.

4 (f) For taxable periods beginning from and after June 30, 2001, a  
5 nonprofit charitable organization that has qualified under section 501(c)(3)  
6 of the internal revenue code and that provides residential apartment housing  
7 for low income persons over sixty-two years of age in a facility that  
8 qualifies for a federal housing subsidy, if the tangible personal property  
9 is used by the organization solely to provide residential apartment housing  
10 for low income persons over sixty-two years of age in a facility that  
11 qualifies for a federal housing subsidy.

12 26. Magazines or other periodicals or other publications by this state  
13 to encourage tourist travel.

14 27. Tangible personal property sold to a person that is subject to tax  
15 under this article by reason of being engaged in business classified under  
16 the prime contracting classification under section 42-5075, or to a  
17 subcontractor working under the control of a prime contractor that is subject  
18 to tax under article 1 of this chapter, if the property so sold is any of the  
19 following:

20 (a) Incorporated or fabricated by the person into any real property,  
21 structure, project, development or improvement as part of the business.

22 (b) Used in environmental response or remediation activities under  
23 section 42-5075, subsection B, paragraph 6.

24 (c) Incorporated or fabricated by the person into any lake facility  
25 development in a commercial enhancement reuse district under conditions  
26 prescribed for the deduction allowed by section 42-5075, subsection B,  
27 paragraph 8.

28 28. The sale of a motor vehicle to:

29 (a) A nonresident of this state if the purchaser's state of residence  
30 does not allow a corresponding use tax exemption to the tax imposed by  
31 article 1 of this chapter and if the nonresident has secured a special  
32 thirty-day nonresident registration of the vehicle by applying according to  
33 section 28-2154.

34 (b) An enrolled member of an Indian tribe who resides on the Indian  
35 reservation established for that tribe.

36 29. Tangible personal property purchased or leased in this state by a  
37 nonprofit charitable organization that has qualified under section 501(c)(3)  
38 of the United States internal revenue code and that engages in and uses such  
39 property exclusively for training, job placement or rehabilitation programs  
40 or testing for mentally or physically handicapped persons.

41 30. Sales of tangible personal property by a nonprofit organization  
42 that is exempt from taxation under section 501(c)(3), 501(c)(4) or 501(c)(6)  
43 of the internal revenue code if the organization is associated with a major  
44 league baseball team or a national touring professional golfing association

1 and no part of the organization's net earnings inures to the benefit of any  
2 private shareholder or individual.

3 31. Sales of commodities, as defined by title 7 United States Code  
4 section 2, that are consigned for resale in a warehouse in this state in or  
5 from which the commodity is deliverable on a contract for future delivery  
6 subject to the rules of a commodity market regulated by the United States  
7 commodity futures trading commission.

8 32. Sales of tangible personal property by a nonprofit organization  
9 that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6),  
10 501(c)(7) or 501(c)(8) of the internal revenue code if the organization  
11 sponsors or operates a rodeo featuring primarily farm and ranch animals and  
12 no part of the organization's net earnings inures to the benefit of any  
13 private shareholder or individual.

14 33. Sales of new semitrailers, as defined in section 28-101,  
15 manufactured in Arizona, or new parts manufactured in Arizona for  
16 semitrailers sold by the manufacturer to a person who holds an interstate  
17 commerce commission license for use in interstate commerce.

18 34. Sales of seeds, seedlings, roots, bulbs, cuttings and other  
19 propagative material to persons who use those items to commercially produce  
20 agricultural, horticultural, viticultural or floricultural crops in this  
21 state.

22 35. Machinery, equipment, technology or related supplies that are only  
23 useful to assist a person who is physically disabled as defined in section  
24 46-191, has a developmental disability as defined in section 36-551 or has  
25 a head injury as defined in section 41-3201 to be more independent and  
26 functional.

27 36. Sales of tangible personal property that is shipped or delivered  
28 directly to a destination outside the United States for use in that foreign  
29 country.

30 37. Sales of natural gas or liquefied petroleum gas used to propel a  
31 motor vehicle.

32 38. Paper machine clothing, such as forming fabrics and dryer felts,  
33 sold to a paper manufacturer and directly used or consumed in paper  
34 manufacturing.

35 39. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity  
36 sold to a qualified environmental technology manufacturer, producer or  
37 processor as defined in section 41-1514.02 and directly used or consumed in  
38 the generation or provision of on-site power or energy solely for  
39 environmental technology manufacturing, producing or processing or  
40 environmental protection. This paragraph shall apply for fifteen full  
41 consecutive calendar or fiscal years from the date the first paper  
42 manufacturing machine is placed in service. In the case of an environmental  
43 technology manufacturer, producer or processor who does not manufacture  
44 paper, the time period shall begin with the date the first manufacturing,  
45 processing or production equipment is placed in service.

40. Sales of liquid, solid or gaseous chemicals used in manufacturing, processing, fabricating, mining, refining, metallurgical operations, research and development and, beginning on January 1, 1999, printing, if using or consuming the chemicals, alone or as part of an integrated system of chemicals, involves direct contact with the materials from which the product is produced for the purpose of causing or permitting a chemical or physical change to occur in the materials as part of the production process. This paragraph does not include chemicals that are used or consumed in activities such as packaging, storage or transportation but does not affect any deduction for such chemicals that is otherwise provided by this section. For purposes of this paragraph, "printing" means a commercial printing operation and includes job printing, engraving, embossing, copying and bookbinding.

41. Through December 31, 1994, personal property liquidation transactions, conducted by a personal property liquidator. From and after December 31, 1994, personal property liquidation transactions shall be taxable under this section provided that nothing in this subsection shall be construed to authorize the taxation of casual activities or transactions under this chapter. In this paragraph:

(a) "Personal property liquidation transaction" means a sale of personal property made by a personal property liquidator acting solely on behalf of the owner of the personal property sold at the dwelling of the owner or upon the death of any owner, on behalf of the surviving spouse, if any, any devisee or heir or the personal representative of the estate of the deceased, if one has been appointed.

(b) "Personal property liquidator" means a person who is retained to conduct a sale in a personal property liquidation transaction.

42. Sales of food, drink and condiment for consumption within the premises of any prison, jail or other institution under the jurisdiction of the state department of corrections, the department of public safety, the department of juvenile corrections or a county sheriff.

43. A motor vehicle and any repair and replacement parts and tangible personal property becoming a part of such motor vehicle sold to a motor carrier who is subject to a fee prescribed in title 28, chapter 16, article 4 and who is engaged in the business of leasing or renting such property.

44. Livestock and poultry feed, salts, vitamins and other additives for livestock or poultry consumption that are sold to persons who are engaged in producing livestock, poultry, or livestock or poultry products or who are engaged in feeding livestock or poultry commercially. For purposes of this paragraph, "poultry" includes ratites.

45. Sales of implants used as growth promotants and injectable medicines, not already exempt under paragraph 8 of this subsection, for livestock or poultry owned by or in possession of persons who are engaged in producing livestock, poultry, or livestock or poultry products or who are engaged in feeding livestock or poultry commercially. For purposes of this paragraph, "poultry" includes ratites.

1        46. Sales of motor vehicles at auction to nonresidents of this state  
2 for use outside this state if the vehicles are shipped or delivered out of  
3 this state, regardless of where title to the motor vehicles passes or its  
4 free on board point.

5        47. Tangible personal property sold to a person engaged in business and  
6 subject to tax under the transient lodging classification if the tangible  
7 personal property is a personal hygiene item which is furnished to and  
8 intended to be consumed by the transient during the transient's occupancy.

9        48. Sales of alternative fuel, as defined in section 1-215, to a used  
10 oil fuel burner who has received a permit to burn used oil or used oil fuel  
11 under section 49-426 or 49-480.

12        49. Sales of materials that are purchased by or for publicly funded  
13 libraries including school district libraries, charter school libraries,  
14 community college libraries, state university libraries or federal, state,  
15 county or municipal libraries for use by the public as follows:

16            (a) Printed or photographic materials, beginning August 7, 1985.

17            (b) Electronic or digital media materials, beginning July 17, 1994.

18        50. Tangible personal property sold to a commercial airline and  
19 consisting of food, beverages and condiments and accessories used for serving  
20 the food and beverages, if those items are to be provided without additional  
21 charge to passengers for consumption in flight. For purposes of this  
22 paragraph, "commercial airline" means a person holding a federal certificate  
23 of public convenience and necessity or foreign air carrier permit for air  
24 transportation to transport persons, property or United States mail in  
25 intrastate, interstate or foreign commerce.

26        51. Sales of alternative fuel vehicles, as defined in section 43-1086,  
27 if the vehicle was manufactured as a diesel fuel vehicle and converted to  
28 operate on alternative fuel and equipment that is installed in a conventional  
29 diesel fuel motor vehicle to convert the vehicle to operate on an alternative  
30 fuel, as defined in section 1-215.

31        52. Sales of any spirituous, vinous or malt liquor by a person that is  
32 licensed in this state as a wholesaler by the department of liquor licenses  
33 and control pursuant to title 4, chapter 2, article 1.

34        53. Sales of tangible personal property to be incorporated or installed  
35 as part of environmental response or remediation activities under section  
36 42-5075, subsection B, paragraph 6.

37        B. In addition to the deductions from the tax base prescribed by  
38 subsection A of this section, the gross proceeds of sales or gross income  
39 derived from sales of the following categories of tangible personal property  
40 shall be deducted from the tax base:

41            1. Machinery, or equipment, used directly in manufacturing,  
42 processing, fabricating, job printing, refining or metallurgical operations.  
43 The terms "manufacturing", "processing", "fabricating", "job printing",  
44 "refining" and "metallurgical" as used in this paragraph refer to and include  
45 those operations commonly understood within their ordinary meaning.

1 "Metallurgical operations" includes leaching, milling, precipitating,  
2 smelting and refining.

3 2. Mining machinery, or equipment, used directly in the process of  
4 extracting ores or minerals from the earth for commercial purposes, including  
5 equipment required to prepare the materials for extraction and handling,  
6 loading or transporting such extracted material to the surface. "Mining"  
7 includes underground, surface and open pit operations for extracting ores and  
8 minerals.

9 3. Tangible personal property sold to persons engaged in business  
10 classified under the telecommunications classification and consisting of  
11 central office switching equipment, switchboards, private branch exchange  
12 equipment, microwave radio equipment and carrier equipment including optical  
13 fiber, coaxial cable and other transmission media which are components of  
14 carrier systems.

15 4. Machinery, equipment or transmission lines used directly in  
16 producing or transmitting electrical power, but not including distribution.  
17 Transformers and control equipment used at transmission substation sites  
18 constitute equipment used in producing or transmitting electrical power.

19 5. Neat animals, horses, asses, sheep, ratites, swine or goats used  
20 or to be used as breeding or production stock, including sales of breedings  
21 or ownership shares in such animals used for breeding or production.

22 6. Pipes or valves four inches in diameter or larger used to transport  
23 oil, natural gas, artificial gas, water or coal slurry, including compressor  
24 units, regulators, machinery and equipment, fittings, seals and any other  
25 part that is used in operating the pipes or valves.

26 7. Aircraft, navigational and communication instruments and other  
27 accessories and related equipment sold to:

28 (a) A person holding a federal certificate of public convenience and  
29 necessity, a supplemental air carrier certificate under federal aviation  
30 regulations (14 Code of Federal Regulations part 121) or a foreign air  
31 carrier permit for air transportation for use as or in conjunction with or  
32 becoming a part of aircraft to be used to transport persons, property or  
33 United States mail in intrastate, interstate or foreign commerce.

34 (b) Any foreign government for use by such government outside of this  
35 state.

36 (c) Persons who are not residents of this state and who will not use  
37 such property in this state other than in removing such property from this  
38 state. This subdivision also applies to corporations that are not  
39 incorporated in this state, regardless of maintaining a place of business in  
40 this state, if the principal corporate office is located outside this state  
41 and the property will not be used in this state other than in removing the  
42 property from this state.

43 8. Machinery, tools, equipment and related supplies used or consumed  
44 directly in repairing, remodeling or maintaining aircraft, aircraft engines



1 or aircraft component parts by or on behalf of a certificated or licensed  
2 carrier of persons or property.

3 9. Railroad rolling stock, rails, ties and signal control equipment  
4 used directly to transport persons or property.

5 10. Machinery or equipment used directly to drill for oil or gas or  
6 used directly in the process of extracting oil or gas from the earth for  
7 commercial purposes.

8 11. Buses or other urban mass transit vehicles which are used directly  
9 to transport persons or property for hire or pursuant to a governmentally  
10 adopted and controlled urban mass transportation program and which are sold  
11 to bus companies holding a federal certificate of convenience and necessity  
12 or operated by any city, town or other governmental entity or by any person  
13 contracting with such governmental entity as part of a governmentally adopted  
14 and controlled program to provide urban mass transportation.

15 12. Groundwater measuring devices required under section 45-604.

16 13. New machinery and equipment consisting of tractors, tractor-drawn  
17 implements, self-powered implements, machinery and equipment necessary for  
18 extracting milk ~~and for producing livestock~~, and machinery and equipment  
19 necessary for cooling milk and ~~producing livestock~~, and drip irrigation lines  
20 not already exempt under paragraph 6 of this subsection and that are used for  
21 commercial production of agricultural, horticultural, viticultural and  
22 floricultural crops and products in this state. In this paragraph:

23 (a) "New machinery and equipment" means machinery and equipment which  
24 have never been sold at retail except pursuant to leases or rentals which do  
25 not total two years or more.

26 (b) "Self-powered implements" includes machinery and equipment that  
27 are electric-powered.

28 14. Machinery or equipment used in research and development. In this  
29 paragraph, "research and development" means basic and applied research in the  
30 sciences and engineering, and designing, developing or testing prototypes,  
31 processes or new products, including research and development of computer  
32 software that is embedded in or an integral part of the prototype or new  
33 product or that is required for machinery or equipment otherwise exempt under  
34 this section to function effectively. Research and development do not  
35 include manufacturing quality control, routine consumer product testing,  
36 market research, sales promotion, sales service, research in social sciences  
37 or psychology, computer software research that is not included in the  
38 definition of research and development, or other nontechnological activities  
39 or technical services.

40 15. Machinery and equipment that are purchased by or on behalf of the  
41 owners of a soundstage complex and primarily used for motion picture,  
42 multimedia or interactive video production in the complex. This paragraph  
43 applies only if the initial construction of the soundstage complex begins  
44 after June 30, 1996 and before January 1, 2002 and the machinery and

1 equipment are purchased before the expiration of five years after the start  
2 of initial construction. For purposes of this paragraph:

3 (a) "Motion picture, multimedia or interactive video production"  
4 includes products for theatrical and television release, educational  
5 presentations, electronic retailing, documentaries, music videos, industrial  
6 films, CD-ROM, video game production, commercial advertising and television  
7 episode production and other genres that are introduced through developing  
8 technology.

9 (b) "Soundstage complex" means a facility of multiple stages including  
10 production offices, construction shops and related areas, prop and costume  
11 shops, storage areas, parking for production vehicles and areas that are  
12 leased to businesses that complement the production needs and orientation of  
13 the overall facility.

14 16. Tangible personal property that is used by either of the following  
15 to receive, store, convert, produce, generate, decode, encode, control or  
16 transmit telecommunications information:

17 (a) Any direct broadcast satellite television or data transmission  
18 service that operates pursuant to 47 Code of Federal Regulations parts 25 and  
19 100.

20 (b) Any satellite television or data transmission facility, if both  
21 of the following conditions are met:

22 (i) Over two-thirds of the transmissions, measured in megabytes,  
23 transmitted by the facility during the test period were transmitted to or on  
24 behalf of one or more direct broadcast satellite television or data  
25 transmission services that operate pursuant to 47 Code of Federal Regulations  
26 parts 25 and 100.

27 (ii) Over two-thirds of the transmissions, measured in megabytes,  
28 transmitted by or on behalf of those direct broadcast television or data  
29 transmission services during the test period were transmitted by the facility  
30 to or on behalf of those services.

31 For purposes of subdivision (b) of this paragraph, "test period" means the  
32 three hundred sixty-five day period beginning on the later of the date on  
33 which the tangible personal property is purchased or the date on which the  
34 direct broadcast satellite television or data transmission service first  
35 transmits information to its customers.

36 17. Clean rooms that are used for manufacturing, processing,  
37 fabrication or research and development, as defined in paragraph 14 of this  
38 subsection, of semiconductor products. For purposes of this paragraph,  
39 "clean room" means all property that comprises or creates an environment  
40 where humidity, temperature, particulate matter and contamination are  
41 precisely controlled within specified parameters, without regard to whether  
42 the property is actually contained within that environment or whether any of  
43 the property is affixed to or incorporated into real property. Clean room:

44 (a) Includes the integrated systems, fixtures, piping, movable  
45 partitions, lighting and all property that is necessary or adapted to reduce

1 contamination or to control airflow, temperature, humidity, chemical purity  
2 or other environmental conditions or manufacturing tolerances, as well as the  
3 production machinery and equipment operating in conjunction with the clean  
4 room environment.

5 (b) Does not include the building or other permanent, nonremovable  
6 component of the building that houses the clean room environment.

7 18. Machinery and equipment used directly in the feeding of poultry,  
8 the environmental control of housing for poultry, the movement of eggs within  
9 a production and packaging facility or the sorting or cooling of eggs. This  
10 exemption does not apply to vehicles used for transporting eggs.

11 19. Machinery or equipment, including related structural components,  
12 that is employed in connection with manufacturing, processing, fabricating,  
13 job printing, refining, mining, natural gas pipelines, metallurgical  
14 operations, telecommunications, producing or transmitting electricity or  
15 research and development and that is used directly to meet or exceed rules  
16 or regulations adopted by the federal energy regulatory commission, the  
17 United States environmental protection agency, the United States nuclear  
18 regulatory commission, the Arizona department of environmental quality or a  
19 political subdivision of this state to prevent, monitor, control or reduce  
20 land, water or air pollution.

21 20. Machinery and equipment that are sold to a person engaged in the  
22 commercial production of livestock, livestock products or agricultural,  
23 horticultural, viticultural or floricultural crops or products in this state  
24 and that are used directly and primarily to prevent, monitor, control or  
25 reduce air, water or land pollution.

26 21. Machinery or equipment that enables a television station to  
27 originate and broadcast or to receive and broadcast digital television  
28 signals and that was purchased to facilitate compliance with the  
29 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States  
30 Code section 336) and the federal communications commission order issued  
31 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does  
32 not exempt any of the following:

33 (a) Repair or replacement parts purchased for the machinery or  
34 equipment described in this paragraph.

35 (b) Machinery or equipment purchased to replace machinery or equipment  
36 for which an exemption was previously claimed and taken under this paragraph.

37 (c) Any machinery or equipment purchased after the television station  
38 has ceased analog broadcasting, or purchased after November 1, 2009,  
39 whichever occurs first.

40 C. The deductions provided by subsection B of this section do not  
41 include sales of:

42 1. Expendable materials. For purposes of this paragraph, expendable  
43 materials do not include any of the categories of tangible personal property  
44 specified in subsection B of this section regardless of the cost or useful  
45 life of that property.

2. Janitorial equipment and hand tools.

3. Office equipment, furniture and supplies.

4. Tangible personal property used in selling or distributing activities, other than the telecommunications transmissions described in subsection B, paragraph 16 of this section.

5. Motor vehicles required to be licensed by this state, except buses or other urban mass transit vehicles specifically exempted pursuant to subsection B, paragraph 11 of this section, without regard to the use of such motor vehicles.

6. Shops, buildings, docks, depots and all other materials of whatever kind or character not specifically included as exempt.

7. Motors and pumps used in drip irrigation systems.

D. In computing the tax base, gross proceeds of sales or gross income from retail sales of automobiles does not include any amount attributable to federal excise taxes imposed by 26 United States Code section 4001.

E. In addition to the deductions from the tax base prescribed by subsection A of this section, there shall be deducted from the tax base the gross proceeds of sales or gross income derived from sales of machinery, equipment, materials and other tangible personal property used directly and predominantly to construct a qualified environmental technology manufacturing, producing or processing facility as described in section 41-1514.02. This subsection applies for ten full consecutive calendar or fiscal years after the start of initial construction.

F. In computing the tax base, gross proceeds of sales or gross income from retail sales of heavy trucks and trailers does not include any amount attributable to federal excise taxes imposed by 26 United States Code section 4051.

G. In computing the tax base, gross proceeds of sales or gross income from the sale of use fuel, as defined in section 28-5701, does not include any amount attributable to federal excise taxes imposed by 26 United States Code section 4091.

H. If a person is engaged in an occupation or business to which subsection A of this section applies, the person's books shall be kept so as to show separately the gross proceeds of sales of tangible personal property and the gross income from sales of services, and if not so kept the tax shall be imposed on the total of the person's gross proceeds of sales of tangible personal property and gross income from services.

I. If a person is engaged in the business of selling tangible personal property at both wholesale and retail, the tax under this section applies only to the gross proceeds of the sales made other than at wholesale if the person's books are kept so as to show separately the gross proceeds of sales of each class, and if the books are not so kept, the tax under this section applies to the gross proceeds of every sale so made.

J. A person who engages in manufacturing, baling, crating, boxing, barreling, canning, bottling, sacking, preserving, processing or otherwise

1 preparing for sale or commercial use any livestock, agricultural or  
2 horticultural product or any other product, article, substance or commodity  
3 and who sells the product of such business at retail in this state is deemed,  
4 as to such sales, to be engaged in business classified under the retail  
5 classification. This subsection does not apply to businesses classified  
6 under the:

- 7 1. Transporting classification.
- 8 2. Utility classification.
- 9 3. Telecommunications classification.
- 10 4. Pipeline classification.
- 11 5. Private car line classification.
- 12 6. Publication classification.
- 13 7. Job printing classification.
- 14 8. Prime contracting classification.
- 15 9. Owner builder sales classification.
- 16 10. Restaurant classification.

17 K. The gross proceeds of sales or gross income derived from the  
18 following shall be deducted from the tax base for the retail classification:

19 1. Sales made directly to the United States government or its  
20 departments or agencies by a manufacturer, modifier, assembler or repairer.

21 2. Sales made directly to a manufacturer, modifier, assembler or  
22 repairer if such sales are of any ingredient or component part of products  
23 sold directly to the United States government or its departments or agencies  
24 by the manufacturer, modifier, assembler or repairer.

25 3. Overhead materials or other tangible personal property that is used  
26 in performing a contract between the United States government and a  
27 manufacturer, modifier, assembler or repairer, including property used in  
28 performing a subcontract with a government contractor who is a manufacturer,  
29 modifier, assembler or repairer, to which title passes to the government  
30 under the terms of the contract or subcontract.

31 4. Sales of overhead materials or other tangible personal property to  
32 a manufacturer, modifier, assembler or repairer if the gross proceeds of  
33 sales or gross income derived from the property by the manufacturer,  
34 modifier, assembler or repairer will be exempt under paragraph 3 of this  
35 subsection.

36 L. There shall be deducted from the tax base fifty per cent of the  
37 gross proceeds or gross income from any sale of tangible personal property  
38 made directly to the United States government or its departments or agencies,  
39 which is not deducted under subsection K of this section.

40 M. The department shall require every person claiming a deduction  
41 provided by subsection K or L of this section to file on forms prescribed by  
42 the department at such times as the department directs a sworn statement  
43 disclosing the name of the purchaser and the exact amount of sales on which  
44 the exclusion or deduction is claimed.

1       N. In computing the tax base, gross proceeds of sales or gross income  
2 does not include:

3       1. A manufacturer's cash rebate on the sales price of a motor vehicle  
4 if the buyer assigns the buyer's right in the rebate to the retailer.

5       2. The waste tire disposal fee imposed pursuant to section 44-1302.

6       O. There shall be deducted from the tax base the amount received from  
7 sales of solar energy devices, but the deduction shall not exceed five  
8 thousand dollars for each solar energy device. Before deducting any amount  
9 under this subsection, the retailer shall register with the department as a  
10 solar energy retailer. By registering, the retailer acknowledges that it  
11 will make its books and records relating to sales of solar energy devices  
12 available to the department for examination.

13       P. In computing the tax base in the case of the sale or transfer of  
14 wireless telecommunications equipment as an inducement to a customer to enter  
15 into or continue a contract for telecommunications services that are taxable  
16 under section 42-5064, gross proceeds of sales or gross income does not  
17 include any sales commissions or other compensation received by the retailer  
18 as a result of the customer entering into or continuing a contract for the  
19 telecommunications services.

20       Q. For the purposes of this section, a sale of wireless  
21 telecommunications equipment to a person who holds the equipment for sale or  
22 transfer to a customer as an inducement to enter into or continue a contract  
23 for telecommunications services that are taxable under section 42-5064 is  
24 considered to be a sale for resale in the regular course of business.

25       R. Retail sales of prepaid calling cards or prepaid authorization  
26 numbers for telecommunications services, including sales of reauthorization  
27 of a prepaid card or authorization number, are subject to tax under this  
28 section.

29       S. For the purposes of this section, the diversion of gas from a  
30 pipeline by a person engaged in the business of operating a natural or  
31 artificial gas pipeline, for the sole purpose of fueling compressor equipment  
32 to pressurize the pipeline, is not a sale of the gas to the operator of the  
33 pipeline.

34       T. If a seller is entitled to a deduction pursuant to subsection B,  
35 paragraph 16, subdivision (b) of this section, the department may require the  
36 purchaser to establish that the requirements of subsection B, paragraph 16,  
37 subdivision (b) of this section have been satisfied. If the purchaser cannot  
38 establish that the requirements of subsection B, paragraph 16, subdivision  
39 (b) of this section have been satisfied, the purchaser is liable in an amount  
40 equal to any tax, penalty and interest which the seller would have been  
41 required to pay under article 1 of this chapter if the seller had not made  
42 a deduction pursuant to subsection B, paragraph 16, subdivision (b) of this  
43 section. Payment of the amount under this subsection exempts the purchaser  
44 from liability for any tax imposed under article 4 of this chapter and  
45 related to the tangible personal property purchased. The amount shall be

1 treated as transaction privilege tax to the purchaser and as tax revenues  
2 collected from the seller to designate the distribution base pursuant to  
3 section 42-5029.

4 U. For purposes of section 42-5032.01, the department shall separately  
5 account for revenues collected under the retail classification from  
6 businesses selling tangible personal property at retail:

7 1. On the premises of a multipurpose facility that is owned, leased  
8 or operated by the tourism and sports authority pursuant to title 5,  
9 chapter 8.

10 2. At professional football contests that are held in a stadium  
11 located on the campus of an institution under the jurisdiction of the Arizona  
12 board of regents.

13 V. For the purposes of this section:

14 1. "Aircraft" includes:

15 (a) An airplane flight simulator that is approved by the federal  
16 aviation administration for use as a phase II or higher flight simulator  
17 under appendix H, 14 Code of Federal Regulations part 121.

18 (b) Tangible personal property that is permanently affixed or attached  
19 as a component part of an aircraft that is owned or operated by a  
20 certificated or licensed carrier of persons or property.

21 2. "Other accessories and related equipment" includes aircraft  
22 accessories and equipment such as ground service equipment that physically  
23 contact aircraft at some point during the overall carrier operation.

24 3. "Selling at retail" means a sale for any purpose other than for  
25 resale in the regular course of business in the form of tangible personal  
26 property, but transfer of possession, lease and rental as used in the  
27 definition of sale mean only such transactions as are found on investigation  
28 to be in lieu of sales as defined without the words lease or rental.

29 W. For purposes of subsection K of this section:

30 1. "Assembler" means a person who unites or combines products, wares  
31 or articles of manufacture so as to produce a change in form or substance  
32 without changing or altering the component parts.

33 2. "Manufacturer" means a person who is principally engaged in the  
34 fabrication, production or manufacture of products, wares or articles for use  
35 from raw or prepared materials, imparting to those materials new forms,  
36 qualities, properties and combinations.

37 3. "Modifier" means a person who reworks, changes or adds to products,  
38 wares or articles of manufacture.

39 4. "Overhead materials" means tangible personal property, the gross  
40 proceeds of sales or gross income derived from which would otherwise be  
41 included in the retail classification, and which are used or consumed in the  
42 performance of a contract, the cost of which is charged to an overhead  
43 expense account and allocated to various contracts based upon generally  
44 accepted accounting principles and consistent with government contract  
45 accounting standards.

1           5. "Repairer" means a person who restores or renews products, wares  
2 or articles of manufacture.

3           6. "Subcontract" means an agreement between a contractor and any  
4 person who is not an employee of the contractor for furnishing of supplies  
5 or services that, in whole or in part, are necessary to the performance of  
6 one or more government contracts, or under which any portion of the  
7 contractor's obligation under one or more government contracts is performed,  
8 undertaken or assumed and that includes provisions causing title to overhead  
9 materials or other tangible personal property used in the performance of the  
10 subcontract to pass to the government or that includes provisions  
11 incorporating such title passing clauses in a government contract into the  
12 subcontract.

13           Sec. 10. Section 42-5070, Arizona Revised Statutes, as amended by Laws  
14 2000, chapter 314, section 1 and chapter 375, section 5, is amended to read:

15           42-5070. Transient lodging classification

16           A. The transient lodging classification is comprised of the business  
17 of operating, for occupancy by transients, a hotel or motel, including an  
18 inn, tourist home or house, dude ranch, resort, campground, studio or  
19 bachelor hotel, lodging house, rooming house, apartment house, dormitory,  
20 public or private club, mobile home or house trailer at a fixed location or  
21 other similar structure, and also including a space, lot or slab which is  
22 occupied or intended or designed for occupancy by transients in a mobile home  
23 or house trailer furnished by them for such occupancy. For purposes of this  
24 subsection "transient" means any person who either at the person's own  
25 expense or at the expense of another obtains lodging space or the use of  
26 lodging space on a daily or weekly basis, or on any other basis for less than  
27 thirty consecutive days.

28           B. The transient lodging classification does not include:

29           1. Operating a convalescent home or facility, home for the aged,  
30 hospital, jail, military installation or fraternity or sorority house or  
31 operating any structure exclusively by an association, institution,  
32 governmental agency or corporation for religious, charitable or educational  
33 purposes, if no part of the net earnings of the association, corporation or  
34 other entity inures to the benefit of any private shareholder or individual.

35           2. A lease or rental of a mobile home or house trailer at a fixed  
36 location or any other similar structure, and also including a space, lot or  
37 slab which is occupied or intended or designed for occupancy by transients  
38 in a mobile home or house trailer furnished by them for such occupancy for  
39 thirty or more consecutive days.

40           3. Leasing or renting four or fewer rooms of an owner-occupied  
41 residential home, together with furnishing no more than a breakfast meal, to  
42 transient lodgers at no more than a fifty per cent average annual occupancy  
43 rate.

44           C. The tax base for the transient lodging classification is the gross  
45 proceeds of sales or gross income derived from the business, except that the



1 tax base does not include gross proceeds of sales or gross income derived  
2 from business activity that is properly included in another business  
3 classification under this article and that is taxable to the person engaged  
4 in that business classification, but the gross proceeds of sales or gross  
5 income to be deducted shall not exceed the consideration paid to the person  
6 conducting the activity.

7 D. THE DEPARTMENT SHALL SEPARATELY ACCOUNT FOR REVENUES COLLECTED  
8 UNDER THE TRANSIENT LODGING CLASSIFICATION FOR PURPOSES OF SECTION 42-5029,  
9 SUBSECTION D, PARAGRAPH 4, SUBDIVISION (f).

10 Sec. 11. Repeal

11 Section 42-5070, Arizona Revised Statutes, as amended by Laws 2000,  
12 chapter 372, section 8, is repealed.

13 Sec. 12. Section 42-5075, Arizona Revised Statutes, as amended by Laws  
14 2000, chapter 33, section 1, chapter 63, section 7, chapter 214, section 1  
15 and chapter 359, section 1, is amended to read:

16 42-5075. Prime contracting classification; exemptions;  
17 definitions

18 A. The prime contracting classification is comprised of the business  
19 of prime contracting and dealership of manufactured buildings. The sale of  
20 a used manufactured building is not taxable under this chapter. ~~The prime~~  
21 ~~contracting classification does not include the gross proceeds of sales or~~  
22 ~~gross income that is derived from contracts to perform postconstruction~~  
23 ~~treatment of real property for termite and general pest control, including~~  
24 ~~wood destroying organisms.~~

25 B. The tax base for the prime contracting classification is sixty-five  
26 per cent of the gross proceeds of sales or gross income derived from the  
27 business. The following amounts shall be deducted from the gross proceeds  
28 of sales or gross income before computing the tax base:

29 1. The sales price of land, which shall not exceed the fair market  
30 value.

31 2. Sales and installation of groundwater measuring devices required  
32 under section 45-604 and groundwater monitoring wells required by law,  
33 including monitoring wells installed for acquiring information for a permit  
34 required by law.

35 3. The sales price of furniture, furnishings, fixtures, appliances,  
36 and attachments that are not incorporated as component parts of or attached  
37 to a manufactured building or the setup site. The sale of such items may be  
38 subject to the taxes imposed by article 1 of this chapter separately and  
39 distinctly from the sale of the manufactured building.

40 4. The gross proceeds of sales or gross income received from a  
41 contract entered into for the construction, alteration, repair, addition,  
42 subtraction, improvement, movement, wrecking or demolition of any building,  
43 highway, road, railroad, excavation, manufactured building or other  
44 structure, project, development or improvement located in a military reuse  
45 zone for providing aviation or aerospace services or for a manufacturer,

1 assembler or fabricator of aviation or aerospace products within five years  
2 after the zone is initially established under section 41-1531. To qualify  
3 for this deduction, before beginning work under the contract the prime  
4 contractor must obtain a letter of qualification from the department of  
5 revenue.

6 5. The gross proceeds of sales or gross income derived from a contract  
7 to construct a qualified environmental technology manufacturing, producing  
8 or processing facility, as described in section 41-1514.02, and from  
9 subsequent construction and installation contracts that begin within ten  
10 years after the start of initial construction. To qualify for this  
11 deduction, before beginning work under the contract the prime contractor must  
12 obtain a letter of qualification from the department of revenue. This  
13 paragraph shall apply for ten full consecutive calendar or fiscal years after  
14 the start of initial construction.

15 6. The gross proceeds of sales or gross income from a contract to  
16 provide for one or more of the following actions, or a contract for site  
17 preparation, constructing, furnishing or installing machinery, equipment or  
18 other tangible personal property, including structures necessary to protect  
19 exempt incorporated materials or installed machinery or equipment, and  
20 tangible personal property incorporated into the project, to perform one or  
21 more of the following actions in response to a release or suspected release  
22 of a hazardous substance, pollutant or contaminant from a facility to the  
23 environment, unless the release was authorized by a permit issued by a  
24 governmental authority:

25 (a) Actions to monitor, assess and evaluate such a release or a  
26 suspected release.

27 (b) Excavation, removal and transportation of contaminated soil and  
28 its treatment or disposal.

29 (c) Treatment of contaminated soil by vapor extraction, chemical or  
30 physical stabilization, soil washing or biological treatment to reduce the  
31 concentration, toxicity or mobility of a contaminant.

32 (d) Pumping and treatment or in situ treatment of contaminated  
33 groundwater or surface water to reduce the concentration or toxicity of a  
34 contaminant.

35 (e) The installation of structures, such as cutoff walls or caps, to  
36 contain contaminants present in groundwater or soil and prevent them from  
37 reaching a location where they could threaten human health or welfare or the  
38 environment.

39 This paragraph does not include asbestos removal or the construction or use  
40 of ancillary structures such as maintenance sheds, offices or storage  
41 facilities for unattached equipment, pollution control equipment, facilities  
42 or other control items required or to be used by a person to prevent or  
43 control contamination before it reaches the environment.

44 7. The gross proceeds of sales or gross income that is derived from  
45 a contract entered into for the installation, assembly, repair or maintenance

1 of machinery, equipment or other tangible personal property that is deducted  
 2 from the tax base of the retail classification pursuant to section 42-5061,  
 3 subsection B, or that is exempt from use tax pursuant to section 42-5159,  
 4 subsection B, and that does not become a permanent attachment to a building,  
 5 highway, road, railroad, excavation or manufactured building or other  
 6 structure, project, development or improvement. If the ownership of the  
 7 realty is separate from the ownership of the machinery, equipment or tangible  
 8 personal property, the determination as to permanent attachment shall be made  
 9 as if the ownership were the same. The deduction provided in this paragraph  
 10 does not include gross proceeds of sales or gross income from that portion  
 11 of any contracting activity which consists of the development of, or  
 12 modification to, real property in order to facilitate the installation,  
 13 assembly, repair, maintenance or removal of machinery, equipment or other  
 14 tangible personal property that is deducted from the tax base of the retail  
 15 classification pursuant to section 42-5061, subsection B or that is exempt  
 16 from use tax pursuant to section 42-5159, subsection B. For purposes of this  
 17 paragraph, "permanent attachment" means at least one of the following:

18 (a) To be incorporated into real property.  
 19 (b) To become so affixed to real property that it becomes a part of  
 20 the real property.

21 (c) To be so attached to real property that removal would cause  
 22 substantial damage to the real property from which it is removed.

23 8. The gross proceeds of sales or gross income received from a  
 24 contract for constructing any lake facility development in a commercial  
 25 enhancement reuse district that is designated pursuant to section 9-499.08  
 26 if the prime contractor maintains the following records in a form  
 27 satisfactory to the department and to the city or town in which the property  
 28 is located:

29 (a) The certificate of qualification of the lake facility development  
 30 issued by the city or town pursuant to section 9-499.08, subsection D.

31 (b) All state and local transaction privilege tax returns for the  
 32 period of time during which the prime contractor received gross proceeds of  
 33 sales or gross income from a contract to construct a lake facility  
 34 development in a designated commercial enhancement reuse district, showing  
 35 the amount exempted from state and local taxation.

36 (c) Any other information that the department considers to be  
 37 necessary.

38 9. The gross proceeds of sales or gross income attributable to the  
 39 purchase of machinery, equipment or other tangible personal property that is  
 40 exempt from or deductible from transaction privilege and use tax under:

41 (a) Section 42-5061, subsection A, paragraph 25 or 29.

42 (b) Section 42-5061, subsection B.

43 (c) Section 42-5159, subsection A, paragraph 13, subdivision (a), (b),

44 (c), (d), (e), (f), (i) or (j).

45 (d) Section 42-5159, subsection B.

1        10. The gross proceeds of sales or gross income received from a  
2 contract for the construction of an environmentally controlled facility for  
3 the raising of poultry for the production of eggs and the sorting, cooling  
4 and packaging of eggs.

5        11. The gross proceeds of sales or gross income that is derived from  
6 a contract entered into with a person who is engaged in the commercial  
7 production of livestock, livestock products or agricultural, horticultural,  
8 viticultural or floricultural crops or products in this state for the  
9 construction, alteration, repair, improvement, movement, wrecking or  
10 demolition or addition to or subtraction from any building, highway, road,  
11 excavation, manufactured building or other structure, project, development  
12 or improvement used directly and primarily to prevent, monitor, control or  
13 reduce air, water or land pollution.

14        12. The gross proceeds of sales or gross income that is derived from  
15 the installation, assembly, repair or maintenance of clean rooms that are  
16 deducted from the tax base of the retail classification pursuant to section  
17 42-5061, subsection B, paragraph 17.

18        13. For taxable periods beginning from and after June 30, 2001, the  
19 gross proceeds of sales or gross income derived from a contract entered into  
20 for the construction of a residential apartment housing facility that  
21 qualifies for a federal housing subsidy for low income persons over sixty-two  
22 years of age and that is owned by a nonprofit charitable organization that  
23 has qualified under section 501(c)(3) of the internal revenue code.

24        14. For taxable periods beginning from and after December 31, 1996 and  
25 ending before January 1, 2011, the contractor's retail cost of solar energy  
26 devices that the contractor supplies and installs pursuant to contracts. The  
27 deduction shall not exceed five thousand dollars for each solar energy  
28 device. Before deducting any amount under this paragraph, the contractor  
29 shall register with the department as a solar energy contractor. By  
30 registering, the contractor acknowledges that it will make its books and  
31 records relating to sales of solar energy devices available to the department  
32 for examination.

33        15. The gross proceeds of sales or gross income derived from a contract  
34 entered into for the construction of a launch site, as defined in 14 Code of  
35 Federal Regulations part SECTION 401.5.

36        16. The gross proceeds of sales or gross income derived from a contract  
37 entered into for the construction of a domestic violence shelter that is  
38 owned and operated by a nonprofit charitable organization that has qualified  
39 under section 501(c)(3) of the internal revenue code.

40        17. THE GROSS PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM CONTRACTS  
41 TO PERFORM POSTCONSTRUCTION TREATMENT OF REAL PROPERTY FOR TERMITE AND  
42 GENERAL PEST CONTROL, INCLUDING WOOD DESTROYING ORGANISMS.

43        C. Entitlement to the deduction pursuant to subsection B, paragraph  
44 7 of this section is subject to the following provisions:

1        1. A prime contractor may establish entitlement to the deduction by  
2 both:

3        (a) Marking the invoice for the transaction to indicate that the gross  
4 proceeds of sales or gross income derived from the transaction was deducted  
5 from the base.

6        (b) Obtaining a certificate executed by the purchaser indicating the  
7 name and address of the purchaser, the precise nature of the business of the  
8 purchaser, the purpose for which the purchase was made, the necessary facts  
9 to establish the deductibility of the property under section 42-5061,  
10 subsection B, and a certification that the person executing the certificate  
11 is authorized to do so on behalf of the purchaser. The certificate may be  
12 disregarded if the prime contractor has reason to believe that the  
13 information contained in the certificate is not accurate or complete.

14        2. A person who does not comply with paragraph 1 of this subsection  
15 may establish entitlement to the deduction by presenting facts necessary to  
16 support the entitlement, but the burden of proof is on that person.

17        3. The department may prescribe a form for the certificate described  
18 in paragraph 1, subdivision (b) of this subsection. The department may also  
19 adopt rules that describe the transactions with respect to which a person is  
20 not entitled to rely solely on the information contained in the certificate  
21 provided in paragraph 1, subdivision (b) of this subsection but must instead  
22 obtain such additional information as required in order to be entitled to the  
23 deduction.

24        4. If a prime contractor is entitled to a deduction by complying with  
25 paragraph 1 of this subsection, the department may require the purchaser who  
26 caused the execution of the certificate to establish the accuracy and  
27 completeness of the information required to be contained in the certificate  
28 which would entitle the prime contractor to the deduction. If the purchaser  
29 cannot establish the accuracy and completeness of the information, the  
30 purchaser is liable in an amount equal to any tax, penalty and interest which  
31 the prime contractor would have been required to pay under article 1 of this  
32 chapter if the prime contractor had not complied with paragraph 1 of this  
33 subsection. Payment of the amount under this paragraph exempts the purchaser  
34 from liability for any tax imposed under article 4 of this chapter. The  
35 amount shall be treated as a transaction privilege tax to the purchaser and  
36 as tax revenues collected from the prime contractor in order to designate the  
37 distribution base for purposes of section 42-5029.

38        D. Subcontractors or others who perform services in respect to any  
39 improvement, building, highway, road, railroad, excavation, manufactured  
40 building or other structure, project, development or improvement are not  
41 subject to tax if they can demonstrate that the job was within the control  
42 of a prime contractor or contractors or a dealership of manufactured  
43 buildings and that the prime contractor or dealership is liable for the tax  
44 on the gross income, gross proceeds of sales or gross receipts attributable  
45 to the job and from which the subcontractors or others were paid.

1 E. Amounts received by a contractor for a project are excluded from  
2 the contractor's gross proceeds of sales or gross income derived from the  
3 business if the person who hired the contractor executes and provides a  
4 certificate to the contractor stating that the person providing the  
5 certificate is a prime contractor and is liable for the tax under article 1  
6 of this chapter. The department shall prescribe the form of the certificate.  
7 If the contractor has reason to believe that the information contained on the  
8 certificate is erroneous or incomplete, the department may disregard the  
9 certificate. If the person who provides the certificate is not liable for  
10 the tax as a prime contractor, that person is nevertheless deemed to be the  
11 prime contractor in lieu of the contractor and is subject to the tax under  
12 this section on the gross receipts or gross proceeds received by the  
13 contractor.

14 F. Every person engaging or continuing in this state in the business  
15 of prime contracting or dealership of manufactured buildings shall present  
16 to the purchaser of such prime contracting or manufactured building a written  
17 receipt of the gross income or gross proceeds of sales from such activity and  
18 shall separately state the taxes to be paid pursuant to this section.

19 G. FOR PURPOSES OF SECTION 42-5032.01, THE DEPARTMENT SHALL SEPARATELY  
20 ACCOUNT FOR REVENUES COLLECTED UNDER THE PRIME CONTRACTING CLASSIFICATION  
21 FROM ANY PRIME CONTRACTOR ENGAGED IN THE PREPARATION OR CONSTRUCTION OF A  
22 MULTIPURPOSE FACILITY, AND RELATED INFRASTRUCTURE, THAT IS OWNED, OPERATED  
23 OR LEASED BY THE TOURISM AND SPORTS AUTHORITY PURSUANT TO TITLE 5, CHAPTER 8.

24 ~~G.~~ H. For purposes of this section:

25 1. "Contracting" means engaging in business as a contractor.

26 2. "Contractor" is synonymous with the term "builder" and means any  
27 person, firm, partnership, corporation, association or other organization,  
28 or a combination of any of them, that undertakes to or offers to undertake  
29 to, or purports to have the capacity to undertake to, or submits a bid to,  
30 or does personally or by or through others, construct, alter, repair, add to,  
31 subtract from, improve, move, wreck or demolish any building, highway, road,  
32 railroad, excavation, manufactured building or other structure, project,  
33 development or improvement, or to do any part of such a project, including  
34 the erection of scaffolding or other structure or works in connection with  
35 such a project, and includes subcontractors and specialty contractors. For  
36 all purposes of taxation or deduction, this definition shall govern without  
37 regard to whether or not such contractor is acting in fulfillment of a  
38 contract.

39 3. "Dealership of manufactured buildings" means a dealer who either:  
40 (a) Is licensed pursuant to title 41, chapter 16 and who sells at  
41 retail manufactured buildings.

42 (b) Supervises, performs or coordinates the excavation and completion  
43 of site improvements, setup or moving of a manufactured building including  
44 the contracting, if any, with any subcontractor or specialty contractor for  
45 the completion of the contract.

1           4. "Manufactured building" means a manufactured home, mobile home or  
2 factory-built building, as defined in section 41-2142.

3           5. "Prime contracting" means engaging in business as a prime  
4 contractor.

5           6. "Prime contractor" means a contractor who supervises, performs or  
6 coordinates the construction, alteration, repair, addition, subtraction,  
7 improvement, movement, wreckage or demolition of any building, highway, road,  
8 railroad, excavation, manufactured building or other structure, project,  
9 development or improvement including the contracting, if any, with any  
10 subcontractors or specialty contractors and who is responsible for the  
11 completion of the contract.

12           7. "Sale of a used manufactured building" does not include a lease of  
13 a used manufactured building.

14           Sec. 13. Repeal

15           Section 42-5075, Arizona Revised Statutes, as amended by Laws 2000,  
16 chapter 372, section 11, is repealed.

17           Sec. 14. Section 42-5159, Arizona Revised Statutes, is amended to  
18 read:

19           42-5159. Exemptions

20           A. The tax levied by this article does not apply to the storage, use  
21 or consumption in this state of the following described tangible personal  
22 property:

23           1. Tangible personal property sold in this state, the gross receipts  
24 from the sale of which are included in the measure of the tax imposed by  
25 articles 1 and 2 of this chapter.

26           2. Tangible personal property the sale or use of which has already  
27 been subjected to an excise tax at a rate equal to or exceeding the tax  
28 imposed by this article under the laws of another state of the United States.  
29 If the excise tax imposed by the other state is at a rate less than the tax  
30 imposed by this article, the tax imposed by this article is reduced by the  
31 amount of the tax already imposed by the other state.

32           3. Tangible personal property, the storage, use or consumption of  
33 which the constitution or laws of the United States prohibit this state from  
34 taxing OR TO THE EXTENT THAT THE RATE OR IMPOSITION OF TAX IS  
35 UNCONSTITUTIONAL UNDER THE LAWS OF THE UNITED STATES.

36           4. Tangible personal property which directly enters into and becomes  
37 an ingredient or component part of any manufactured, fabricated or processed  
38 article, substance or commodity for sale in the regular course of business.

39           5. Motor vehicle fuel and use fuel, the sales, distribution or use of  
40 which in this state is subject to the tax imposed under the provisions of  
41 title 28, chapter 16, article 1 or 2, use fuel which is sold to or used by  
42 a person holding a valid single trip use fuel tax permit issued under section  
43 28-5739, aviation fuel, the sales, distribution or use of which in this state  
44 is subject to the tax imposed under section 28-8344, and jet fuel, the sales,

1 distribution or use of which in this state is subject to the tax imposed  
2 under article 8 of this chapter.

3 6. Tangible personal property brought into this state by an individual  
4 who was a nonresident at the time the property was purchased for storage, use  
5 or consumption by the individual if the first actual use or consumption of  
6 the property was outside this state, unless the property is used in  
7 conducting a business in this state.

8 7. Purchases of implants used as growth promotants and injectable  
9 medicines, not already exempt under paragraph 16 of this subsection, for  
10 livestock and poultry owned by, or in possession of, persons who are engaged  
11 in producing livestock, poultry, or livestock or poultry products, or who are  
12 engaged in feeding livestock or poultry commercially. For purposes of this  
13 paragraph, "poultry" includes ratites.

14 8. Livestock, poultry, supplies, feed, salts, vitamins and other  
15 additives for use or consumption in the businesses of farming, ranching and  
16 feeding livestock or poultry, not including fertilizers, herbicides and  
17 insecticides. For purposes of this paragraph, "poultry" includes ratites.

18 9. Seeds, seedlings, roots, bulbs, cuttings and other propagative  
19 material for use in commercially producing agricultural, horticultural,  
20 viticultural or floricultural crops in this state.

21 10. Tangible personal property not exceeding two hundred dollars in any  
22 one month purchased by an individual at retail outside the continental limits  
23 of the United States for the individual's own personal use and enjoyment.

24 11. Advertising supplements which are intended for sale with newspapers  
25 published in this state and which have already been subjected to an excise  
26 tax under the laws of another state in the United States which equals or  
27 exceeds the tax imposed by this article.

28 12. Materials that are purchased by or for publicly funded libraries  
29 including school district libraries, charter school libraries, community  
30 college libraries, state university libraries or federal, state, county or  
31 municipal libraries for use by the public as follows:

32 (a) Printed or photographic materials, beginning August 7, 1985.

33 (b) Electronic or digital media materials, beginning July 17, 1994.

34 13. Tangible personal property purchased by:

35 (a) A hospital organized and operated exclusively for charitable  
36 purposes, no part of the net earnings of which inures to the benefit of any  
37 private shareholder or individual.

38 (b) A hospital operated by this state or a political subdivision of  
39 this state.

40 (c) A licensed nursing care institution or a licensed residential care  
41 institution or a residential care facility operated in conjunction with a  
42 licensed nursing care institution or a licensed kidney dialysis center, which  
43 provides medical services, nursing services or health related services and  
44 is not used or held for profit.



1 (d) A qualifying health care organization, as defined in section  
2 42-5001, if the tangible personal property is used by the organization solely  
3 to provide health and medical related educational and charitable services.

4 (e) A qualifying health care organization as defined in section  
5 42-5001 if the organization is dedicated to providing educational,  
6 therapeutic, rehabilitative and family medical education training for blind,  
7 visually impaired and multihandicapped children from the time of birth to age  
8 twenty-one.

9 (f) A nonprofit charitable organization that has qualified under  
10 section 501(c)(3) of the United States internal revenue code and that engages  
11 in and uses such property exclusively for training, job placement or  
12 rehabilitation programs or testing for mentally or physically handicapped  
13 persons.

14 (g) A person that is subject to tax under article 1 of this chapter  
15 by reason of being engaged in business classified under the prime contracting  
16 classification under section 42-5075, or a subcontractor working under the  
17 control of a prime contractor, if the tangible personal property is any of  
18 the following:

19 (i) Incorporated or fabricated by the contractor into a structure,  
20 project, development or improvement in fulfillment of a contract.

21 (ii) Used in environmental response or remediation activities under  
22 section 42-5075, subsection B, paragraph 6.

23 (iii) Incorporated or fabricated by the person into any lake facility  
24 development in a commercial enhancement reuse district under conditions  
25 prescribed for the deduction allowed by section 42-5075, subsection B,  
26 paragraph 8.

27 (h) A nonprofit charitable organization that has qualified under  
28 section 501(c)(3) of the internal revenue code if the property is purchased  
29 from the parent or an affiliate organization that is located outside this  
30 state.

31 (i) A qualifying community health center as defined in section  
32 42-5001.

33 (j) A nonprofit charitable organization that has qualified under  
34 section 501(c)(3) of the internal revenue code and that regularly serves  
35 meals to the needy and indigent on a continuing basis at no cost.

36 (k) A person engaged in business under the transient lodging  
37 classification if the property is a personal hygiene product which is  
38 furnished without additional charge to and intended to be consumed by the  
39 transient during the transient's occupancy.

40 (l) For taxable periods beginning from and after June 30, 2001, a  
41 nonprofit charitable organization that has qualified under section 501(c)(3)  
42 of the internal revenue code and that provides residential apartment housing  
43 for low income persons over sixty-two years of age in a facility that  
44 qualifies for a federal housing subsidy, if the tangible personal property  
45 is used by the organization solely to provide residential apartment housing

1 for low income persons over sixty-two years of age in a facility that  
2 qualifies for a federal housing subsidy.

3 14. Commodities, as defined by title 7 United States Code section 2,  
4 that are consigned for resale in a warehouse in this state in or from which  
5 the commodity is deliverable on a contract for future delivery subject to the  
6 rules of a commodity market regulated by the United States commodity futures  
7 trading commission.

8 15. Tangible personal property sold by:

9 (a) Any nonprofit organization organized and operated exclusively for  
10 charitable purposes and recognized by the United States internal revenue  
11 service under section 501(c)(3) of the internal revenue code.

12 (b) A nonprofit organization that is exempt from taxation under  
13 section 501(c)(3) or 501(c)(6) of the internal revenue code if the  
14 organization is associated with a major league baseball team or a national  
15 touring professional golfing association and no part of the organization's  
16 net earnings inures to the benefit of any private shareholder or individual.

17 (c) A nonprofit organization that is exempt from taxation under  
18 section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the  
19 internal revenue code if the organization sponsors or operates a rodeo  
20 featuring primarily farm and ranch animals and no part of the organization's  
21 net earnings inures to the benefit of any private shareholder or individual.

22 16. Drugs and medical oxygen, including delivery hose, mask or tent,  
23 regulator and tank, on the prescription of a member of the medical, dental  
24 or veterinarian profession who is licensed by law to administer such  
25 substances.

26 17. Prosthetic appliances, as defined in section 23-501, prescribed or  
27 recommended by a person who is licensed, registered or otherwise  
28 professionally credentialed as a physician, dentist, podiatrist,  
29 chiropractor, naturopath, homeopath, nurse or optometrist.

30 18. Prescription eyeglasses and contact lenses.

31 19. Insulin, insulin syringes and glucose test strips.

32 20. Hearing aids as defined in section 36-1901.

33 21. Durable medical equipment which has a federal health care financing  
34 administration common procedure code, is designated reimbursable by medicare,  
35 is prescribed by a person who is licensed under title 32, chapter 7, 13, 17  
36 or 29, can withstand repeated use, is primarily and customarily used to serve  
37 a medical purpose, is generally not useful to a person in the absence of  
38 illness or injury and is appropriate for use in the home.

39 22. Food, as provided in and subject to the conditions of article 3 of  
40 this chapter and section 42-5074.

41 23. Items purchased with United States department of agriculture food  
42 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.  
43 958) or food instruments issued under section 17 of the child nutrition act  
44 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code  
45 section 1786).

1        24. Food and drink provided without monetary charge by a taxpayer which  
2 is subject to section 42-5074 to its employees for their own consumption on  
3 the premises during the employees' hours of employment.

4        25. Tangible personal property that is used or consumed in a business  
5 subject to section 42-5074 for human food, drink or condiment, whether  
6 simple, mixed or compounded.

7        26. Food, drink or condiment and accessory tangible personal property  
8 if they are to be prepared and served to persons for consumption on the  
9 premises of a public school in a school district during school hours.

10       27. Lottery tickets or shares purchased pursuant to title 5, chapter  
11 5, article 1.

12       28. Textbooks, sold by a bookstore, that are required by any state  
13 university or community college.

14       29. Magazines, other periodicals or other publications produced by this  
15 state to encourage tourist travel.

16       30. Paper machine clothing, such as forming fabrics and dryer felts,  
17 purchased by a paper manufacturer and directly used or consumed in paper  
18 manufacturing.

19       31. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity  
20 purchased by a qualified environmental technology manufacturer, producer or  
21 processor as defined in section 41-1514.02 and directly used or consumed in  
22 the generation or provision of on-site power or energy solely for  
23 environmental technology manufacturing, producing or processing or  
24 environmental protection. This paragraph shall apply for fifteen full  
25 consecutive calendar or fiscal years from the date the first paper  
26 manufacturing machine is placed in service. In the case of an environmental  
27 technology manufacturer, producer or processor who does not manufacture  
28 paper, the time period shall begin with the date the first manufacturing,  
29 processing or production equipment is placed in service.

30       32. Motor vehicles that are removed from inventory by a motor vehicle  
31 dealer as defined in section 28-4301 and that are provided to:

32       (a) Charitable or educational institutions that are exempt from  
33 taxation under section 501(c)(3) of the internal revenue code.

34       (b) Public educational institutions.

35       (c) State universities or affiliated organizations of a state  
36 university if no part of the organization's net earnings inures to the  
37 benefit of any private shareholder or individual.

38       33. Natural gas or liquefied petroleum gas used to propel a motor  
39 vehicle.

40       34. Machinery, equipment, technology or related supplies that are only  
41 useful to assist a person who is physically disabled as defined in section  
42 46-191, has a developmental disability as defined in section 36-551 or has  
43 a head injury as defined in section 41-3201 to be more independent and  
44 functional.

1        35. Liquid, solid or gaseous chemicals used in manufacturing,  
2 processing, fabricating, mining, refining, metallurgical operations, research  
3 and development and, beginning on January 1, 1999, printing, if using or  
4 consuming the chemicals, alone or as part of an integrated system of  
5 chemicals, involves direct contact with the materials from which the product  
6 is produced for the purpose of causing or permitting a chemical or physical  
7 change to occur in the materials as part of the production process. This  
8 paragraph does not include chemicals that are used or consumed in activities  
9 such as packaging, storage or transportation but does not affect any  
10 exemption for such chemicals that is otherwise provided by this section. For  
11 purposes of this paragraph "printing" means a commercial printing operation  
12 and includes job printing, engraving, embossing, copying and bookbinding.

13        36. Food, drink and condiment purchased for consumption within the  
14 premises of any prison, jail or other institution under the jurisdiction of  
15 the state department of corrections, the department of public safety, the  
16 department of juvenile corrections or a county sheriff.

17        37. A motor vehicle and any repair and replacement parts and tangible  
18 personal property becoming a part of such motor vehicle sold to a motor  
19 carrier who is subject to a fee prescribed in title 28, chapter 16, article  
20 4 and who is engaged in the business of leasing or renting such property.

21        38. Tangible personal property which is or directly enters into and  
22 becomes an ingredient or component part of cards used as prescription plan  
23 identification cards.

24        39. Overhead materials or other tangible personal property that is used  
25 in performing a contract between the United States government and a  
26 manufacturer, modifier, assembler or repairer, including property used in  
27 performing a subcontract with a government contractor who is a manufacturer,  
28 modifier, assembler or repairer, to which title passes to the government  
29 under the terms of the contract or subcontract. For purposes of this  
30 paragraph:

31        (a) "Overhead materials" means tangible personal property, the gross  
32 proceeds of sales or gross income derived from which would otherwise be  
33 included in the retail classification, and which are used or consumed in the  
34 performance of a contract, the cost of which is charged to an overhead  
35 expense account and allocated to various contracts based upon generally  
36 accepted accounting principles and consistent with government contract  
37 accounting standards.

38        (b) "Subcontract" means an agreement between a contractor and any  
39 person who is not an employee of the contractor for furnishing of supplies  
40 or services that, in whole or in part, are necessary to the performance of  
41 one or more government contracts, or under which any portion of the  
42 contractor's obligation under one or more government contracts is performed,  
43 undertaken or assumed, and that includes provisions causing title to overhead  
44 materials or other tangible personal property used in the performance of the  
45 subcontract, to pass to the government or that includes provisions

1 incorporating such title passing clauses in a government contract into the  
2 subcontract.

3 40. Through December 31, 1994, tangible personal property sold pursuant  
4 to a personal property liquidation transaction, as defined in section  
5 42-5061. From and after December 31, 1994, tangible personal property sold  
6 pursuant to a personal property liquidation transaction, as defined in  
7 section 42-5061, if the gross proceeds of the sales were included in the  
8 measure of the tax imposed by article 1 of this chapter or if the personal  
9 property liquidation was a casual activity or transaction.

10 41. Wireless telecommunications equipment that is held for sale or  
11 transfer to a customer as an inducement to enter into or continue a contract  
12 for telecommunications services that are taxable under section 42-5064.

13 42. Alternative fuel, as defined in section 1-215, purchased by a used  
14 oil fuel burner who has received a permit to burn used oil or used oil fuel  
15 under section 49-426 or 49-480.

16 43. Tangible personal property purchased by a commercial airline and  
17 consisting of food, beverages and condiments and accessories used for serving  
18 the food and beverages, if those items are to be provided without additional  
19 charge to passengers for consumption in flight. For purposes of this  
20 paragraph, "commercial airline" means a person holding a federal certificate  
21 of public convenience and necessity or foreign air carrier permit for air  
22 transportation to transport persons, property or United States mail in  
23 intrastate, interstate or foreign commerce.

24 44. Alternative fuel vehicles, as defined in section 43-1086, and  
25 equipment that is installed in a conventional motor vehicle to convert the  
26 vehicle to operate on an alternative fuel, as defined in section 1-215.

27 45. Gas diverted from a pipeline, by a person engaged in the business  
28 of operating a natural or artificial gas pipeline, and used or consumed for  
29 the sole purpose of fueling compressor equipment that pressurizes the  
30 pipeline.

31 46. Tangible personal property that is excluded, exempt or deductible  
32 from transaction privilege tax pursuant to section 42-5063.

33 47. Tangible personal property purchased to be incorporated or  
34 installed as part of environmental response or remediation activities under  
35 section 42-5075, subsection B, paragraph 6.

36 B. In addition to the exemptions allowed by subsection A of this  
37 section, the following categories of tangible personal property are also  
38 exempt:

39 1. Machinery, or equipment, used directly in manufacturing,  
40 processing, fabricating, job printing, refining or metallurgical operations.  
41 The terms "manufacturing", "processing", "fabricating", "job printing",  
42 "refining" and "metallurgical" as used in this paragraph refer to and include  
43 those operations commonly understood within their ordinary meaning.  
44 "Metallurgical operations" includes leaching, milling, precipitating,  
45 smelting and refining.

1           2. Machinery, or equipment, used directly in the process of extracting  
2 ores or minerals from the earth for commercial purposes, including equipment  
3 required to prepare the materials for extraction and handling, loading or  
4 transporting such extracted material to the surface. "Mining" includes  
5 underground, surface and open pit operations for extracting ores and  
6 minerals.

7           3. Tangible personal property sold to persons engaged in business  
8 classified under the telecommunications classification under section 42-5064  
9 and consisting of central office switching equipment, switchboards, private  
10 branch exchange equipment, microwave radio equipment and carrier equipment  
11 including optical fiber, coaxial cable and other transmission media which are  
12 components of carrier systems.

13           4. Machinery, equipment or transmission lines used directly in  
14 producing or transmitting electrical power, but not including distribution.  
15 Transformers and control equipment used at transmission substation sites  
16 constitute equipment used in producing or transmitting electrical power.

17           5. Neat animals, horses, asses, sheep, ratites, swine or goats used  
18 or to be used as breeding or production stock, including sales of breedings  
19 or ownership shares in such animals used for breeding or production.

20           6. Pipes or valves four inches in diameter or larger used to transport  
21 oil, natural gas, artificial gas, water or coal slurry, including compressor  
22 units, regulators, machinery and equipment, fittings, seals and any other  
23 part that is used in operating the pipes or valves.

24           7. Aircraft, navigational and communication instruments and other  
25 accessories and related equipment sold to:

26           (a) A person holding a federal certificate of public convenience and  
27 necessity, a supplemental air carrier certificate under federal aviation  
28 regulations (14 Code of Federal Regulations part 121) or a foreign air  
29 carrier permit for air transportation for use as or in conjunction with or  
30 becoming a part of aircraft to be used to transport persons, property or  
31 United States mail in intrastate, interstate or foreign commerce.

32           (b) Any foreign government for use by such government outside of this  
33 state, or sold to persons who are not residents of this state and who will  
34 not use such property in this state other than in removing such property from  
35 this state.

36           8. Machinery, tools, equipment and related supplies used or consumed  
37 directly in repairing, remodeling or maintaining aircraft, aircraft engines  
38 or aircraft component parts by or on behalf of a certificated or licensed  
39 carrier of persons or property.

40           9. Rolling stock, rails, ties and signal control equipment used  
41 directly to transport persons or property.

42           10. Machinery or equipment used directly to drill for oil or gas or  
43 used directly in the process of extracting oil or gas from the earth for  
44 commercial purposes.

1        11. Buses or other urban mass transit vehicles which are used directly  
2 to transport persons or property for hire or pursuant to a governmentally  
3 adopted and controlled urban mass transportation program and which are sold  
4 to bus companies holding a federal certificate of convenience and necessity  
5 or operated by any city, town or other governmental entity or by any person  
6 contracting with such governmental entity as part of a governmentally adopted  
7 and controlled program to provide urban mass transportation.

8        12. Groundwater measuring devices required under section 45-604.

9        13. New machinery and equipment consisting of tractors, tractor-drawn  
10 implements, self-powered implements, machinery and equipment ~~that are~~  
11 necessary for extracting milk, and MACHINERY AND EQUIPMENT NECESSARY for  
12 cooling milk and livestock, and drip irrigation lines not already exempt  
13 under paragraph 6 of this subsection and THAT ARE used for commercial  
14 production of agricultural, horticultural, viticultural and floricultural  
15 crops and products in this state. In this paragraph:

16        (a) "New machinery and equipment" means machinery or equipment which  
17 has never been sold at retail except pursuant to leases or rentals which do  
18 not total two years or more.

19        (b) "Self-powered implements" includes machinery and equipment that  
20 are electric-powered.

21        14. Machinery or equipment used in research and development. In this  
22 paragraph, "research and development" means basic and applied research in the  
23 sciences and engineering, and designing, developing or testing prototypes,  
24 processes or new products, including research and development of computer  
25 software that is embedded in or an integral part of the prototype or new  
26 product or that is required for machinery or equipment otherwise exempt under  
27 this section to function effectively. Research and development do not  
28 include manufacturing quality control, routine consumer product testing,  
29 market research, sales promotion, sales service, research in social sciences  
30 or psychology, computer software research that is not included in the  
31 definition of research and development, or other nontechnological activities  
32 or technical services.

33        15. Machinery and equipment that are purchased by or on behalf of the  
34 owners of a soundstage complex and primarily used for motion picture,  
35 multimedia or interactive video production in the complex. This paragraph  
36 applies only if the initial construction of the soundstage complex begins  
37 after June 30, 1996 and before January 1, 2002 and the machinery and  
38 equipment are purchased before the expiration of five years after the start  
39 of initial construction. For purposes of this paragraph:

40        (a) "Motion picture, multimedia or interactive video production"  
41 includes products for theatrical and television release, educational  
42 presentations, electronic retailing, documentaries, music videos, industrial  
43 films, CD-ROM, video game production, commercial advertising and television  
44 episode production and other genres that are introduced through developing  
45 technology.

1 (b) "Soundstage complex" means a facility of multiple stages including  
2 production offices, construction shops and related areas, prop and costume  
3 shops, storage areas, parking for production vehicles and areas that are  
4 leased to businesses that complement the production needs and orientation of  
5 the overall facility.

6 16. Tangible personal property that is used by either of the following  
7 to receive, store, convert, produce, generate, decode, encode, control or  
8 transmit telecommunications information:

9 (a) Any direct broadcast satellite television or data transmission  
10 service that operates pursuant to 47 Code of Federal Regulations parts 25 and  
11 100.

12 (b) Any satellite television or data transmission facility, if both  
13 of the following conditions are met:

14 (i) Over two-thirds of the transmissions, measured in megabytes,  
15 transmitted by the facility during the test period were transmitted to or on  
16 behalf of one or more direct broadcast satellite television or data  
17 transmission services that operate pursuant to 47 Code of Federal Regulations  
18 parts 25 and 100.

19 (ii) Over two-thirds of the transmissions, measured in megabytes,  
20 transmitted by or on behalf of those direct broadcast television or data  
21 transmission services during the test period were transmitted by the facility  
22 to or on behalf of those services.

23 For purposes of subdivision (b) of this paragraph, "test period" means the  
24 three hundred sixty-five day period beginning on the later of the date on  
25 which the tangible personal property is purchased or the date on which the  
26 direct broadcast satellite television or data transmission service first  
27 transmits information to its customers.

28 17. Clean rooms that are used for manufacturing, processing,  
29 fabrication or research and development, as defined in paragraph 14 of this  
30 subsection, of semiconductor products. For purposes of this paragraph,  
31 "clean room" means all property that comprises or creates an environment  
32 where humidity, temperature, particulate matter and contamination are  
33 precisely controlled within specified parameters, without regard to whether  
34 the property is actually contained within that environment or whether any of  
35 the property is affixed to or incorporated into real property. Clean room:

36 (a) Includes the integrated systems, fixtures, piping, movable  
37 partitions, lighting and all property that is necessary or adapted to reduce  
38 contamination or to control airflow, temperature, humidity, chemical purity  
39 or other environmental conditions or manufacturing tolerances, as well as the  
40 production machinery and equipment operating in conjunction with the clean  
41 room environment.

42 (b) Does not include the building or other permanent, nonremovable  
43 component of the building that houses the clean room environment.

44 18. Machinery and equipment that are used directly in the feeding of  
45 poultry, the environmental control of housing for poultry, the movement of



1 eggs within a production and packaging facility or the sorting or cooling of  
2 eggs. This exemption does not apply to vehicles used for transporting eggs.

3 19. Machinery or equipment, including related structural components,  
4 that is employed in connection with manufacturing, processing, fabricating,  
5 job printing, refining, mining, natural gas pipelines, metallurgical  
6 operations, telecommunications, producing or transmitting electricity or  
7 research and development and that is used directly to meet or exceed rules  
8 or regulations adopted by the federal energy regulatory commission, the  
9 United States environmental protection agency, the United States nuclear  
10 regulatory commission, the Arizona department of environmental quality or a  
11 political subdivision of this state to prevent, monitor, control or reduce  
12 land, water or air pollution.

13 20. Machinery and equipment that are used in the commercial production  
14 of livestock, livestock products or agricultural, horticultural, viticultural  
15 or floricultural crops or products in this state and that are used directly  
16 and primarily to prevent, monitor, control or reduce air, water or land  
17 pollution.

18 21. Machinery or equipment that enables a television station to  
19 originate and broadcast or to receive and broadcast digital television  
20 signals and that was purchased to facilitate compliance with the  
21 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States  
22 Code section 336) and the federal communications commission order issued  
23 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does  
24 not exempt any of the following:

25 (a) Repair or replacement parts purchased for the machinery or  
26 equipment described in this paragraph.

27 (b) Machinery or equipment purchased to replace machinery or equipment  
28 for which an exemption was previously claimed and taken under this paragraph.

29 (c) Any machinery or equipment purchased after the television station  
30 has ceased analog broadcasting, or purchased after November 1, 2009,  
31 whichever occurs first.

32 C. The exemptions provided by subsection B of this section do not  
33 include:

34 1. Expendable materials. For purposes of this paragraph, expendable  
35 materials do not include any of the categories of tangible personal property  
36 specified in subsection B of this section regardless of the cost or useful  
37 life of that property.

38 2. Janitorial equipment and hand tools.

39 3. Office equipment, furniture and supplies.

40 4. Tangible personal property used in selling or distributing  
41 activities, other than the telecommunications transmissions described in  
42 subsection B, paragraph 16 of this section.

43 5. Motor vehicles required to be licensed by this state, except buses  
44 or other urban mass transit vehicles specifically exempted pursuant to

1 subsection B, paragraph 11 of this section, without regard to the use of such  
2 motor vehicles.

3 6. Shops, buildings, docks, depots and all other materials of whatever  
4 kind or character not specifically included as exempt.

5 7. Motors and pumps used in drip irrigation systems.

6 D. The following shall be deducted in computing the purchase price of  
7 electricity by a retail electric customer from a utility business:

8 1. Revenues received from sales of ancillary services, electric  
9 distribution services, electric generation services, electric transmission  
10 services and other services related to providing electricity to a retail  
11 electric customer who is located outside this state for use outside this  
12 state if the electricity is delivered to a point of sale outside this state.

13 2. Revenues received from providing electricity, including ancillary  
14 services, electric distribution services, electric generation services,  
15 electric transmission services and other services related to providing  
16 electricity with respect to which the transaction privilege tax imposed under  
17 section 42-5063 has been paid.

18 E. The tax levied by this article does not apply to:

19 1. The storage, use or consumption in Arizona of machinery, equipment,  
20 materials or other tangible personal property if used directly and  
21 predominantly to construct a qualified environmental technology  
22 manufacturing, producing or processing facility, as described in section  
23 41-1514.02. This paragraph applies for ten full consecutive calendar or  
24 fiscal years after the start of initial construction.

25 2. The purchase of electricity by a qualified environmental technology  
26 manufacturer, producer or processor as defined in section 41-1514.02 that is  
27 used directly in environmental technology manufacturing, producing or  
28 processing. This paragraph shall apply for fifteen full consecutive calendar  
29 or fiscal years from the date the first paper manufacturing machine is placed  
30 in service. In the case of an environmental technology manufacturer,  
31 producer or processor who does not manufacture paper, the time period shall  
32 begin with the date the first manufacturing, processing or production  
33 equipment is placed in service.

34 F. The following shall be deducted in computing the purchase price of  
35 electricity by a retail electric customer from a utility business:

36 1. Fees charged by a municipally owned utility to persons constructing  
37 residential, commercial or industrial developments or connecting residential,  
38 commercial or industrial developments to a municipal utility system or  
39 systems if the fees are segregated and used only for capital expansion,  
40 system enlargement or debt service of the utility system or systems.

41 2. Reimbursement or contribution compensation to any person or persons  
42 owning a utility system for property and equipment installed to provide  
43 utility access to, on or across the land of an actual utility consumer if the  
44 property and equipment become the property of the utility. This deduction  
45 shall not exceed the value of such property and equipment.

1 G. For the purposes of subsection B of this section:

2 1. "Aircraft" includes:

3 (a) An airplane flight simulator that is approved by the federal  
4 aviation administration for use as a phase II or higher flight simulator  
5 under appendix H, 14 Code of Federal Regulations part 121.

6 (b) Tangible personal property that is permanently affixed or attached  
7 as a component part of an aircraft that is owned or operated by a  
8 certificated or licensed carrier of persons or property.

9 2. "Other accessories and related equipment" includes aircraft  
10 accessories and equipment such as ground service equipment that physically  
11 contact aircraft at some point during the overall carrier operation.

12 H. For purposes of subsection D of this section, "ancillary services",  
13 "electric distribution service", "electric generation service", "electric  
14 transmission service" and "other services" have the same meanings prescribed  
15 by section 42-5063.

16 Sec. 15. Section 42-11109, Arizona Revised Statutes, is amended to  
17 read:

18 42-11109. Exemption for religious property; affidavit

19 A. Property or buildings that are used or held primarily for religious  
20 worship, including land, improvements, furniture and equipment, are exempt  
21 from taxation if the property is not used or held for profit.

22 B. Within ten days after receiving an initial affidavit of eligibility  
23 submitted under section 42-11152 by a nonprofit organization that owns  
24 property used primarily for religious worship, the county assessor, on  
25 request, shall issue a receipt for the affidavit.

26 C. If the organization files with the assessor evidence of the  
27 organization's tax exempt status under section 501(c)(3) of the internal  
28 revenue code or ~~section 43-1201~~, the organization is exempt from the  
29 requirement of filing subsequent affidavits under section 42-11152 until all  
30 or part of the property is conveyed to a new owner or is no longer used for  
31 religious worship. At that time the organization shall notify the assessor  
32 of the change in writing.

33 D. A nonprofit organization that obtains title to property that was  
34 previously owned by another nonprofit organization and used primarily for  
35 religious worship shall comply with the requirements of section 42-11152 to  
36 qualify and establish eligibility for exemption.

37 E. If a nonprofit organization that holds title to property used  
38 primarily for religious worship fails to file the affidavit required by  
39 section 42-11152 in a timely manner, but otherwise qualifies for exemption,  
40 the county board of supervisors, on petition by the organization, shall  
41 direct the county treasurer to:

42 1. Refund any property taxes paid by the organization for a tax year  
43 if the organization submits a claim for the refund to the county treasurer  
44 within one year after the date the taxes were paid. The county treasurer  
45 shall pay the claim within thirty days after it is submitted to the

1 treasurer. The county treasurer is entitled to credit for the refund in the  
2 next accounting period with each taxing jurisdiction to which the tax monies  
3 may have been transmitted.

4 2. Forgive and strike off from the tax roll any property taxes and  
5 accrued interest and penalties that are due but not paid.

6 Sec. 16. Section 43-323, Arizona Revised Statutes, is amended to read:

7 43-323. Place and form of filing returns

8 A. All returns required by this title shall be in such form as the  
9 department may from time to time prescribe and shall be filed with the  
10 department.

11 B. The department shall prescribe a short form return for individual  
12 taxpayers who:

13 1. Are eligible and elect to pay tax based on the optional tax tables  
14 pursuant to section 43-1012.

15 2. Have dividend and interest income not in excess of four hundred  
16 dollars from either of those sources.

17 3. Elect not to file for credits against income tax liability other  
18 than those contained in SECTION 16-954, SUBSECTION B AND sections 43-1072,  
19 43-1072.01 and 43-1073.

20 4. Are not required to add any income under section 43-1021 and do not  
21 elect any subtractions under section 43-1022, except for the exemptions  
22 allowed under section 43-1023.

23 C. The department may provide a simplified return form for individual  
24 taxpayers who:

25 1. Are eligible and elect to pay tax based on the optional tax tables  
26 pursuant to section 43-1012.

27 2. Are residents for the full taxable year.

28 3. File as single individuals or married couples filing joint returns  
29 under section 43-309.

30 4. Are not sixty-five years of age or older or blind ~~on January 1 of~~  
31 ~~the taxable year.~~

32 5. Claim no dependents for the taxable year.

33 6. Elect to claim the optional standard deduction under section  
34 43-1041.

35 7. Are not required to add any income under section 43-1021 and do not  
36 elect to claim any subtractions under section 43-1022 or file for any credits  
37 under chapter 10, article 5 of this title except the credits provided by  
38 sections 43-1072, 43-1072.01 and 43-1073.

39 8. Do not elect to contribute a portion of any tax refund as provided  
40 by any provision of Chapter 6, article 1 of this title. Notwithstanding any  
41 provision of chapter 6, article 1 of this title, a simplified return form  
42 under this subsection shall not include any space for the taxpayer to so  
43 contribute a portion of a refund.

44 D. The department shall prepare blank forms for the returns and shall  
45 distribute them throughout the state and furnish them upon application.

1 Failure to receive or secure the form does not relieve any taxpayer from  
2 making any return required.

3 Sec. 17. Section 43-1022, Arizona Revised Statutes, is amended to  
4 read:

5 43-1022. Subtractions from Arizona gross income

6 In computing Arizona adjusted gross income, the following amounts shall  
7 be subtracted from Arizona gross income:

8 1. The amount of exemptions allowed by section 43-1023.

9 2. Benefits, annuities and pensions in an amount totaling not more  
10 than two thousand five hundred dollars received from one or more of the  
11 following:

12 (a) The United States government service retirement and disability  
13 fund, retired or retainer pay of the uniformed services of the United States,  
14 the United States foreign service retirement and disability system and any  
15 other retirement system or plan established by federal law.

16 (b) The state retirement system, the state retirement plan, the  
17 corrections officer retirement plan, the public safety personnel retirement  
18 system, the elected officials' retirement plan, an optional retirement  
19 program established by the Arizona board of regents under section 15-1628,  
20 an optional retirement program established by a community college district  
21 board under section 15-1451, or a retirement plan established for employees  
22 of a county, city or town in this state.

23 3. A beneficiary's share of trust or estate income recognized pursuant  
24 to the internal revenue code.

25 4. The amount of any distributions from an individual retirement  
26 account as provided for in section 408 of the internal revenue code or from  
27 a qualified retirement plan of a self-employed individual as provided for in  
28 section 401 of the internal revenue code to the extent that total adjustments  
29 made pursuant to this paragraph in all tax years do not exceed the total of  
30 all contributions made by the taxpayer to such plans prior to December 31,  
31 1975, which were included in computing Arizona taxable income.

32 5. The amount of income on an installment receivable which is  
33 recognized pursuant to the internal revenue code and which has already been  
34 recognized on the death of the taxpayer for purposes of this title for tax  
35 years ending before January 1, 1990.

36 6. Interest income received on obligations of the United States, less  
37 any interest on indebtedness, or other related expenses, and deducted in  
38 arriving at Arizona gross income, which were incurred or continued to  
39 purchase or carry such obligations.

40 7. The amount of any income tax refunds which were received from  
41 states other than Arizona and which were included as income in computing  
42 federal adjusted gross income.

43 8. Annuity income included in federal adjusted gross income pursuant  
44 to section 72 of the internal revenue code if the first payment with respect  
45 to such annuity was received prior to December 31, 1978.

1       9. The excess of a partner's share of income required to be included  
2 under section 702(a)(8) of the internal revenue code over the income required  
3 to be included under chapter 14, article 2 of this title.

4       10. The excess of a partner's share of partnership losses determined  
5 pursuant to chapter 14, article 2 of this title over the losses allowable  
6 under section 702(a)(8) of the internal revenue code.

7       11. The amount by which the adjusted basis of property described in  
8 this paragraph and computed pursuant to this title and the income tax act of  
9 1954, as amended, exceeds the adjusted basis of such property computed  
10 pursuant to the internal revenue code. This paragraph shall apply to all  
11 property which is held for the production of income and which is sold or  
12 otherwise disposed of during the taxable year other than depreciable property  
13 used in a trade or business.

14       12. The amount allowed by section 43-1024 for amortization, by a  
15 qualified defense contractor certified by the department of commerce under  
16 section 41-1508, of a capital investment for private commercial activities.

17       13. The amount of gain included in federal adjusted gross income on the  
18 sale or other disposition of a capital investment that a qualified defense  
19 contractor has elected to amortize pursuant to section 43-1024.

20       14. The amount allowed by section 43-1025 for contributions during the  
21 taxable year of agricultural crops to charitable organizations.

22       15. The portion of any wages or salaries paid or incurred by the  
23 taxpayer for the taxable year that is equal to the amount of the federal work  
24 opportunity credit, the empowerment zone employment credit, the credit for  
25 employer paid social security taxes on employee cash tips and the Indian  
26 employment credit that the taxpayer received under sections 45A, 45B, 51(a)  
27 and 1396 of the internal revenue code.

28       16. The amount of prizes or winnings less than five thousand dollars  
29 in a single taxable year from any of the state lotteries established and  
30 operated pursuant to title 5, chapter 5, article 1, except that all such  
31 winnings before March 22, 1983, including periodic distributions from such  
32 winnings made after March 22, 1983, may be subtracted.

33       17. The amount of exploration expenses that is determined pursuant to  
34 section 617 of the internal revenue code, that has been deferred in a taxable  
35 year ending before January 1, 1990 and for which a subtraction has not  
36 previously been made. The subtraction shall be made on a ratable basis as  
37 the units of produced ores or minerals discovered or explored as a result of  
38 this exploration are sold.

39       18. The amount included in federal adjusted gross income pursuant to  
40 section 86 of the internal revenue code, relating to taxation of social  
41 security and railroad retirement benefits.

42       19. To the extent not already excluded from Arizona gross income under  
43 section 112 of the internal revenue code, compensation received for active  
44 service as a member of the armed forces of the United States for any month  
45 during any part of which the member served in a combat zone as determined

1 under section 112 of the internal revenue code or in an area given the same  
2 treatment as a combat zone for purposes of section 112 of the internal  
3 revenue code.

4 20. The amount of unreimbursed medical and hospital costs, adoption  
5 counseling, legal and agency fees and other nonrecurring costs of adoption  
6 not to exceed three thousand dollars. In the case of a husband and wife who  
7 file separate returns, the subtraction may be taken by either taxpayer or may  
8 be divided between them, but the total subtractions allowed both husband and  
9 wife shall not exceed three thousand dollars. The subtraction under this  
10 paragraph may be taken for the costs that are described in this paragraph and  
11 that are incurred in prior years, but the subtraction may be taken only in  
12 the year during which the final adoption order is granted.

13 21. The amount authorized by section 43-1027 for the taxable year  
14 relating to qualified wood stoves, wood fireplaces or gas fired fireplaces.

15 22. With respect to a medical savings account established pursuant to  
16 section 43-1028:

17 (a) An eligible individual may subtract:

18 (i) The amount of contributions made by the individual's employer  
19 during the taxable year to the individual's medical savings account pursuant  
20 to section 43-1028 to the extent that the employer contributions are included  
21 in the individual's federal adjusted gross income.

22 (ii) The amount deposited by the individual in the account during the  
23 taxable year to the extent that the individual's contributions are included  
24 in the individual's federal adjusted gross income.

25 (b) The individual's employer may subtract the amount of contributions  
26 made by the employer to a medical savings account established on the  
27 individual's behalf to the extent that the contributions are not deductible  
28 under the internal revenue code.

29 23. The amount by which a net operating loss carryover or capital loss  
30 carryover allowable pursuant to section 43-1029, subsection F exceeds the net  
31 operating loss carryover or capital loss carryover allowable pursuant to  
32 section 1341(b)(5) of the internal revenue code.

33 24. Any amount of qualified educational expenses that is distributed  
34 from a qualified state tuition program determined pursuant to section 529 of  
35 the internal revenue code and that is included in income in computing federal  
36 adjusted gross income.

37 25. Any item of income resulting from an installment sale that has been  
38 properly subjected to INCOME tax in another state in a previous taxable year  
39 and that is included in Arizona gross income in the current taxable year.

40 ~~26. Any item of income resulting from an installment sale that has been~~  
41 ~~properly subjected to income tax in another state in a previous year and that~~  
42 ~~is included in Arizona gross income in the current taxable year.~~

43 ~~27. 26. The amount authorized by section 43-1030 relating to holocaust~~  
44 ~~survivors.~~

1       28- 27. The amount authorized by section 43-1031 for constructing an  
2 energy efficient residence.

3       Sec. 18. Section 43-1031, Arizona Revised Statutes, is amended to  
4 read:

5       43-1031. Subtraction for constructing an energy efficient  
6               residence

7       A. For taxable years beginning from and after December 31, 2001  
8 through December 31, 2010, in computing Arizona adjusted gross income a  
9 taxpayer may subtract five per cent of the sales price, excluding  
10 commissions, taxes, interest, points and other brokerage, finance and escrow  
11 charges, of one or more new single family residences, condominiums or town  
12 houses that are sold by the taxpayer and that exceeds EXCEED the 1995 model  
13 energy code by fifty per cent or more as determined by an approved rating  
14 program. Rating programs shall meet the United States department of energy's  
15 home energy rating system guidelines or other guidelines approved by the  
16 department of commerce energy office. The amount of the subtraction shall  
17 not exceed five thousand dollars with respect to each new single family  
18 residence, condominium or town house.

19       B. The department of commerce energy office shall:

20       1. Annually review the threshold rating used to determine eligibility  
21 for the subtraction.

22       2. If the number of homes receiving a subtraction in a single year  
23 exceeds five per cent of the new homes built in this state as estimated by  
24 the department of commerce, increase the qualifying rating by five per cent  
25 for the next taxable year.

26       3. Provide an annual list to the department of revenue of the criteria  
27 used to determine an energy efficiency rating that qualifies for a  
28 subtraction pursuant to this section.

29       C. The taxpayer may elect to transfer a credit SUBTRACTION under this  
30 section to the purchaser of the residence or to the financial institution  
31 that secures a mortgage or deed of trust on the residence. If the taxpayer  
32 transfers the credit SUBTRACTION, the taxpayer shall deliver to the purchaser  
33 or financial institution a written statement that the taxpayer has elected  
34 not to claim the credit SUBTRACTION and that the purchaser or financial  
35 institution may claim the credit SUBTRACTION, subject to the conditions and  
36 limitations prescribed by this section.

37       Sec. 19. Section 43-1074.01, Arizona Revised Statutes, is amended to  
38 read:

39       43-1074.01. Credit for increased research activities

40       A. A credit is allowed against the taxes imposed by this title in an  
41 amount determined pursuant to section 41 of the internal revenue code, except  
42 that:



1        1. The amount of the credit is ~~computed as follows:~~

2        ~~(a) Add:~~

3        ~~(i) BASED ON the excess, if any, of the qualified research expenses~~  
4        ~~for the taxable year over the base amount as defined in section 41(c) of the~~  
5        ~~internal revenue code. AND IS COMPUTED AS FOLLOWS:~~

6        ~~(ii) The basic research payments determined under section 41(e)(1)(A)~~  
7        ~~of the internal revenue code.~~

8        ~~(b) (a) If the sum computed under subdivision (a) EXCESS is two~~  
9        ~~million five hundred thousand dollars or less, the credit is equal to twenty~~  
10       ~~per cent of that amount.~~

11       ~~(c) (b) If the sum computed under subdivision (a) EXCESS is over two~~  
12       ~~million five hundred thousand dollars, the credit is equal to five hundred~~  
13       ~~thousand dollars plus eleven per cent of any amount exceeding two million~~  
14       ~~five hundred thousand dollars, except that:~~

15       ~~(i) For taxable years beginning from and after December 31, 2000~~  
16       ~~through December 31, 2001, the credit shall not exceed one million five~~  
17       ~~hundred thousand dollars.~~

18       ~~(ii) For taxable years beginning from and after December 31, 2001~~  
19       ~~through December 31, 2002, the credit shall not exceed two million five~~  
20       ~~hundred thousand dollars.~~

21       2. Qualified research includes only research conducted in this state  
22       including research conducted at a university in this state and paid for by  
23       the taxpayer.

24       3. If two or more taxpayers, including partners in a partnership and  
25       shareholders of an S corporation, as defined in section 1361 of the internal  
26       revenue code, share in the eligible expenses, each taxpayer is eligible to  
27       receive a proportionate share of the credit.

28       4. The credit under this section applies only to expenses incurred  
29       from and after December 31, 2000.

30       5. The termination provisions of section 41 of the internal revenue  
31       code do not apply.

32       B. If the allowable credit under this section exceeds the taxes  
33       otherwise due under this title on the claimant's income, or if there are no  
34       taxes due under this title, the amount of the credit not used to offset taxes  
35       may be carried forward to the next fifteen consecutive taxable years. ~~The~~  
36       ~~amount of credit carryforward from taxable years beginning from and after~~  
37       ~~December 31, 2002 that may be used in any taxable year may not exceed the~~  
38       ~~taxpayer's tax liability under this title after subtracting the credit under~~  
39       ~~this section for the current year's qualified research expenses. The amount~~  
40       ~~of credit carryforward from taxable years beginning before January 1, 2003~~  
41       ~~FROM AND AFTER DECEMBER 31, 2000 THROUGH DECEMBER 31, 2002 that may be used~~  
42       ~~in any taxable year may not exceed the taxpayer's tax liability under this~~  
43       ~~title after subtracting OR FIVE HUNDRED THOUSAND DOLLARS, WHICHEVER IS LESS,~~  
44       ~~MINUS the credit under this section for the current TAXABLE year's qualified~~  
45       ~~research expenses or the difference between five hundred thousand dollars and~~

1 ~~the credit under this section for the current year's qualified research~~  
2 ~~expenses, whichever amount is less. THE AMOUNT OF CREDIT CARRYFORWARD FROM~~  
3 ~~TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2002 THAT MAY BE USED IN~~  
4 ~~ANY TAXABLE YEAR MAY NOT EXCEED THE TAXPAYER'S TAX LIABILITY UNDER THIS TITLE~~  
5 ~~MINUS THE CREDIT UNDER THIS SECTION FOR THE CURRENT TAXABLE YEAR'S QUALIFIED~~  
6 ~~RESEARCH EXPENSES.~~

7 Sec. 20. Section 43-1077, Arizona Revised Statutes, is amended to  
8 read:

9 43-1077. Credit for employment by qualified defense contractor

10 A. A credit is allowed against the taxes imposed by this title for:

11 1. Net increases in employment under United States department of  
12 defense contracts during the taxable year, as computed under subsection D of  
13 this section, by a qualified defense contractor who is certified by the  
14 department of commerce under section 41-1508.

15 2. Net increases in private commercial employment during the taxable  
16 year, as computed under subsection E of this section, by a qualified defense  
17 contractor who is certified by the department of commerce under section  
18 41-1508 due to full-time equivalent employee positions transferred during the  
19 taxable year by the taxpayer from exclusively defense related activities to  
20 employment by the taxpayer in exclusively private commercial activities.

21 B. The amount of the credit is a dollar amount allowed for each  
22 full-time equivalent employee position created, determined as follows:

23 1st year	\$2,500
24 2nd year	\$2,000
25 3rd year	\$1,500
26 4th year	\$1,000
27 5th year	\$ 500

28 C. If the allowable tax credit exceeds the taxes otherwise due under  
29 this title on the claimant's income, or if there are no taxes due under this  
30 title, the taxpayer may carry the amount of the claim not used to offset the  
31 taxes under this title forward for ~~not more than five~~ UNTIL taxable years  
32 BEGINNING FROM AND AFTER DECEMBER 31, 2011 as a credit against subsequent  
33 years' income tax liability, regardless of continuing certification as a  
34 qualified defense contractor.

35 D. The net increase in employment under defense related contracts  
36 shall be determined as follows:

37 1. Establish an employment baseline for the taxpayer based on a  
38 multiyear forecast of employment on United States department of defense  
39 contracts that was submitted to the department of defense before June 1,  
40 1992. The annual average employment forecast for the first year the taxpayer  
41 qualified is the baseline. If the taxpayer did not make such a forecast  
42 before June 1, 1992, the baseline is the average annual employment as  
43 reported to the department of economic security during the preceding taxable  
44 year. If a taxpayer qualifies in the same year it relocates into this state,  
45 the taxpayer's baseline is zero.

1           2. For the first year of the credit, the taxpayer's net increase in  
2 average employment is the increase in employment reported to the department  
3 of economic security for the taxable year over the employment baseline.

4           3. For each succeeding year of the credit, the taxpayer's net increase  
5 in average employment is the increase in employment reported to the  
6 department of economic security for the taxable year over the preceding  
7 taxable year's average employment.

8           E. In computing the amount of credit allowed under subsection A,  
9 paragraph 2 of this section, the taxpayer shall:

10           1. Prorate employment during the taxable year according to the date  
11 of transfer from defense to private commercial activities or the date of  
12 transfer from private commercial activities to defense.

13           2. Compute and subtract an amount pursuant to subsection B of this  
14 section for full-time equivalent employee positions that were transferred  
15 during the taxable year by the taxpayer from exclusively private commercial  
16 activities to exclusively defense related activities.

17           F. The taxpayer shall account for qualifying full-time equivalent  
18 employee positions on a first-in first-out basis. If a decrease in  
19 qualifying employment occurs, the taxpayer shall subtract the decrease from  
20 the earliest qualifying positions.

21           G. A credit is not allowed under both subsection A, paragraphs 1 and  
22 2 of this section with respect to the same employee position. A full-time  
23 equivalent employee position may be considered for purposes of computing the  
24 credit under either subsection A, paragraph 1 or 2 of this section, but not  
25 both.

26           H. A credit is not allowed under this section with respect to  
27 employment that was transferred from an outside contractor in this state to  
28 in-house employment by the taxpayer solely for purposes of qualifying for the  
29 credit.

30           I. A taxpayer who claims a credit under section 43-1079 may not claim  
31 a credit under this section with respect to the same employees.

32           J. Co-owners of a business, including partners in a partnership and  
33 shareholders of an S corporation, as defined in section 1361 of the internal  
34 revenue code, may each claim only the pro rata share of the credit allowed  
35 under this section based on the ownership interest. The total of the credits  
36 allowed all such owners may not exceed the amount that would have been  
37 allowed for a sole owner of the business.

38           Sec. 21. Section 43-1078, Arizona Revised Statutes, is amended to  
39 read:

40           43-1078. Credit for property taxes paid by qualified defense  
41 contractor

42           A. A credit is allowed against the taxes imposed by this title equal  
43 to a portion of the amount paid as taxes during the taxable year by a  
44 qualified defense contractor that is certified by the department of commerce

under section 41-1508, on property in this state that is classified as class one, paragraphs 12 and 13 pursuant to section 42-12001.

B. The amount of the credit is determined as follows:

1. Multiply the amount paid as taxes on property classified as class one, paragraphs 12 and 13 pursuant to section 42-12001 in this state during the taxable year by a percentage based on net new defense related employment, determined by subtracting the employment baseline determined pursuant to section 43-1077, subsection D, paragraph 1, from average annual employment as reported to the department of economic security for the taxable year, as follows:

<u>New employment</u>	<u>Credit percentage</u>
More than 900	40%
601 - 900	30%
301 - 600	20%
1 - 300	10%

2. Multiply the amount determined under paragraph 1 of this subsection by a percentage determined by dividing the taxpayer's total gross income from United States department of defense contracts apportioned to this state by the taxpayer's total gross income from all sources apportioned to this state.

C. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the taxpayer may carry the amount of the claim not used to offset the taxes under this title forward for ~~not more than five~~ UNTIL taxable years BEGINNING FROM AND AFTER DECEMBER 31, 2011 as a credit against subsequent years' income tax liability, regardless of continuing certification as a qualified defense contractor.

D. The credit allowed by this section is in lieu of a deduction for property taxes under section 43-1042 with respect to the same taxes paid.

E. Co-owners of a business, including partners in a partnership and shareholders of an S corporation, as defined in section 1361 of the internal revenue code, may each claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

Sec. 22. Section 43-1081.02, Arizona Revised Statutes, is amended to read:

43-1081.02. Credit for taxpayers participating in agricultural preservation district

A. For taxable years beginning from and after December 31, 2000 and ending before January 1, 2006, a credit is allowed in lieu of any other deduction or credit against taxes imposed by this title for a taxpayer who owns property classified as class two property under section 42-12002 and who conveys ownership or development rights of the property to an agricultural preservation district under section 48-5702. Except as provided in subsection B of this section, the amount of the credit is either:

1        1. The appraised value of the property if the taxpayer conveys the  
2 ownership of the property to the district.

3        2. The difference between the appraised value of the undeveloped land  
4 and the appraised value of the land for development purposes if the taxpayer  
5 conveys the development rights of the property to the district.

6        B. To receive a tax credit under this section, a taxpayer must apply  
7 to the agricultural preservation district, on a form prescribed by the  
8 district, on or before January 15 following the calendar year in which the  
9 conveyance or close of escrow occurred. On or before February 15, the  
10 district shall review and determine the qualification for and amount of the  
11 credit for each taxpayer and issue a certificate to each qualifying applicant  
12 stating the appraisal amount and the amount of the credit. THE TAXPAYER  
13 SHALL CLAIM THE CREDIT ON THE NEXT TAX RETURN FILED AFTER RECEIVING THE  
14 CERTIFICATE FROM THE DISTRICT. The district shall not certify tax credits  
15 under this section in any calendar year exceeding thirty-three thousand  
16 dollars. If qualifying applications exceed ~~ten million~~ THIRTY-THREE THOUSAND  
17 dollars, the district shall proportionately reduce the amount of the credit  
18 awarded to each taxpayer.

19        C. Co-owners of the property, including partners in a partnership and  
20 shareholders of an S corporation, as defined in section 1361 of the internal  
21 revenue code, may each claim only the pro rata share of the credit allowed  
22 under this section based on the ownership interest. The total of the credits  
23 allowed all such owners may not exceed the amount that would have been  
24 allowed a sole owner.

25        D. If the allowable tax credit exceeds the taxes due under this title  
26 on the claimant's income, or if there are no taxes due under this title, the  
27 amount of the claim not used to offset the taxes under this title shall be  
28 paid in the same manner as a refund granted under ~~chapter 6, article 1 of~~  
29 ~~this title~~ SECTION 42-1118. Refunds made pursuant to this section are  
30 subject to setoff under section 42-1122.

31        Sec. 23. Section 43-1088.01, Arizona Revised Statutes, is amended to  
32 read:

33        43-1088.01. Credit for technology training; definition

34        A. For tax years beginning from and after December 31, 2000 and ending  
35 before January 1, 2006, a credit is allowed against the taxes imposed by this  
36 title for expenses incurred by the taxpayer for providing qualified  
37 technology skills training to not more than twenty of the taxpayer's  
38 employees.

39        B. The amount of the credit is equal to fifty per cent of the amount  
40 actually spent during the taxable CALENDAR year for the cost of training but  
41 not more than one thousand five hundred dollars per employee.

42        C. To receive a tax credit under this section, a taxpayer must apply  
43 to the department of commerce, on a form prescribed by the department of  
44 commerce, on or before January 15 following the calendar year in which the  
45 credit is claimed EXPENSES WERE INCURRED. On or before February 15 of that

1 same year, the department of commerce shall review and determine the amount  
2 of the credit for each taxpayer and issue a certificate to each qualifying  
3 applicant stating the amount of the credit. THE TAXPAYER SHALL CLAIM THE  
4 CREDIT ON THE NEXT TAX RETURN FILED AFTER RECEIVING THE CERTIFICATE FROM THE  
5 DEPARTMENT OF COMMERCE. The department of commerce shall not certify tax  
6 credits under this section in any calendar year exceeding two million five  
7 hundred thousand dollars. If qualifying applications exceed two million five  
8 hundred thousand dollars, the department of commerce shall proportionately  
9 reduce the amount of the credit allowed each taxpayer.

10 D. If the allowable tax credit exceeds the taxes due under this title  
11 on the claimant's income, or if there are no taxes due under this title, the  
12 amount of the claim not used to offset the taxes under this title shall be  
13 paid in the same manner as a refund granted under section 42-1118. Refunds  
14 made pursuant to this section are subject to setoff under section 42-1122.

15 E. Co-owners of a business, including partners in a partnership and  
16 shareholders of an S corporation, as defined in section 1361 of the internal  
17 revenue code, may each claim only the pro rata share of the credit allowed  
18 under this section based on the ownership interest. The total of the credits  
19 allowed all of the owners shall not exceed the amount that would have been  
20 allowed for a sole owner.

21 F. For purposes of this section, "qualified technology skills  
22 training" means a training program that is certified by the department of  
23 commerce under section 41-1518.01.

24 Sec. 24. Section 43-1122, Arizona Revised Statutes, is amended to  
25 read:

26 43-1122. Subtractions from Arizona gross income; corporations

27 In computing Arizona taxable income for a corporation, the following  
28 amounts shall be subtracted from Arizona gross income:

29 1. The amounts computed pursuant to section 43-1022, paragraphs 8  
30 through 15. FOR PURPOSES OF THIS PARAGRAPH "FEDERAL ADJUSTED GROSS INCOME"  
31 AS USED IN SECTION 43-1022 MEANS "FEDERAL TAXABLE INCOME".

32 2. The amount of dividend income received from Arizona corporations  
33 as prescribed by section 43-1128.

34 3. The amount of Arizona capital loss carryover as defined in section  
35 43-1124 in an amount not to exceed one thousand dollars.

36 4. With respect to a financial institution as defined in section  
37 6-101, expenses and interest relating to tax-exempt income disallowed  
38 pursuant to section 265 of the internal revenue code.

39 5. Dividends received from another corporation owned or controlled  
40 directly or indirectly by a recipient corporation. "Control" for purposes  
41 of this paragraph means direct or indirect ownership or control of fifty per  
42 cent or more of the voting stock of the payor corporation by the recipient  
43 corporation. Dividends shall have the meaning provided in section 316 of the  
44 internal revenue code. This subtraction shall apply without regard to the  
45 provisions of section 43-961, paragraph 2 and article 4 of this chapter. A

1 corporation that has its commercial domicile, as defined in section 43-1131,  
2 in this state may subtract the full amount of the dividends. A corporation  
3 that does not have its commercial domicile in this state may subtract:

4 (a) For its taxable year beginning in 1990, an amount equal to  
5 one-half of the dividends.

6 (b) For taxable years beginning in 1991 and thereafter, the full  
7 amount of the dividends.

8 6. Interest income received on obligations of the United States.

9 7. The amount of dividend income from foreign corporations.

10 8. The amount of net operating loss allowed by section 43-1123.

11 9. The amount of any state income tax refunds received which were  
12 included as income in computing federal taxable income.

13 10. The amount of expense recapture included in income pursuant to  
14 section 617 of the internal revenue code for mine exploration expenses.

15 11. The amount of deferred exploration expenses allowed by section  
16 43-1127.

17 12. The amount of exploration expenses related to the exploration of  
18 oil, gas or geothermal resources, computed in the same manner and on the same  
19 basis as a deduction for mine exploration pursuant to section 617 of the  
20 internal revenue code. This computation is subject to the adjustments  
21 contained in section 43-1121, paragraph 8 and paragraphs 10 and 11 of this  
22 section relating to exploration expenses.

23 13. The amortization of pollution control devices allowed by section  
24 43-1129.

25 14. The amount of amortization of the cost of child care facilities  
26 pursuant to section 43-1130.

27 15. The amount of income from a domestic international sales  
28 corporation required to be included in the income of its shareholders  
29 pursuant to section 995 of the internal revenue code.

30 16. The income of an insurance company that is exempt under section  
31 43-1201 to the extent that it is included in computing Arizona gross income  
32 on a consolidated return pursuant to section 43-947.

33 17. The amount of contributions by the taxpayer during the taxable year  
34 to medical savings accounts established on behalf of the taxpayer's employees  
35 as provided by section 43-1028, to the extent that the contributions are not  
36 deductible under the internal revenue code.

37 18. The amount by which a capital loss carryover allowable pursuant to  
38 section 43-1130.01, subsection F exceeds the capital loss carryover allowable  
39 pursuant to section 1341(b)(5) of the internal revenue code.

40 Sec. 25. Section 43-1123, Arizona Revised Statutes, is amended to  
41 read:

42 43-1123. Net operating loss; definition

43 A. As used in this section, the term "net operating loss" means:

44 1. In the case of a taxpayer who has a net operating loss for the  
45 taxable year within the meaning of section 172(c) of the internal revenue

code, the amount of the net operating loss increased by the subtractions specified in section 43-1122, EXCEPT THE DEDUCTION ALLOWED IN SECTION 43-1122, PARAGRAPH 8, and reduced by the additions specified in section 43-1121.

2. In the case of a taxpayer not described in paragraph 1 of this subsection, any excess of the subtractions specified in section 43-1122, EXCEPT THE DEDUCTION ALLOWED IN SECTION 43-1122, PARAGRAPH 8, over the sum of the Arizona gross income plus the additions specified in section 43-1121.

B. If for any taxable year the taxpayer has a net operating loss, such net operating loss shall be a net operating loss carryover for each of the five succeeding taxable years, except that the carryover in the case of each such succeeding taxable year, other than the first succeeding taxable year, shall be the excess, if any, of the amount of such net operating loss over the sum of the taxable income for each of the intervening years computed:

~~1. With the exception prescribed by subsection D of this section.~~

~~2. by determining the net operating loss deduction for each intervening taxable year, without regard to such net operating loss or to the net operating loss for any succeeding taxable year. and without regard to any reduction specified in subsection C of this section. For the purpose of the preceding sentence, the net operating loss for any taxable year shall be reduced by the amount, if any, of the taxable income for the preceding taxable year computed:~~

~~(a) With the exception prescribed by subsection D of this section.~~

~~(b) By determining the net operating loss deduction for such preceding taxable year without regard to such net operating loss and without regard to any reduction specified in subsection C of this section.~~

C. The amount of the net operating loss deduction shall be the aggregate of the net operating loss carryovers to the taxable year. ~~reduced by the amount, if any, by which the taxable income computed with the exception prescribed by subsection D of this section exceeds the taxable income computed without such deduction.~~

~~D. No net operating loss deduction shall be allowed or included in the computations prescribed by this section.~~

Sec. 26. Section 43-1165, Arizona Revised Statutes, is amended to read:

43-1165. Credit for employment by qualified defense contractor

A. A credit is allowed against the taxes imposed by this title for:

1. Net increases in employment under United States department of defense contracts during the taxable year, as computed under subsection D of this section, by a qualified defense contractor that is certified by the department of commerce under section 41-1508.

2. Net increases in private commercial employment during the taxable year, as computed under subsection E of this section, by a qualified defense contractor that is certified by the department of commerce under section 41-1508 due to full-time equivalent employee positions transferred during the



1 taxable year by the taxpayer from exclusively defense related activities to  
2 employment by the taxpayer in exclusively private commercial activities.

3 B. The amount of the credit is a dollar amount allowed for each  
4 full-time equivalent employee position created, determined as follows:

5	1st year	\$2,500
6	2nd year	\$2,000
7	3rd year	\$1,500
8	4th year	\$1,000
9	5th year	\$ 500

10 C. If the allowable tax credit exceeds the taxes otherwise due under  
11 this title on the claimant's income, or if there are no taxes due under this  
12 title, the taxpayer may carry the amount of the claim not used to offset the  
13 taxes under this title FORWARD until TAXABLE YEARS BEGINNING FROM AND AFTER  
14 December 31, 2011 as a credit against subsequent years' income tax liability,  
15 regardless of continuing certification as a qualified defense contractor.

16 D. The net increase in employment under defense related contracts  
17 shall be determined as follows:

18 1. Establish an employment baseline for the taxpayer based on a  
19 multiyear forecast of employment on United States department of defense  
20 contracts that was submitted to the department of defense before June 1,  
21 1992. The annual average employment forecast for the first year the taxpayer  
22 qualified is the baseline. If the taxpayer did not make such a forecast  
23 before June 1, 1992, the baseline is the average annual employment as  
24 reported to the department of economic security during the preceding taxable  
25 year. If a taxpayer qualifies in the same year it relocates into this state,  
26 the taxpayer's baseline is zero.

27 2. For the first year of the credit, the taxpayer's net increase in  
28 average employment is the increase in employment reported to the department  
29 of economic security for the taxable year over the employment baseline.

30 3. For each succeeding year of the credit, the taxpayer's net increase  
31 in average employment is the increase in employment reported to the  
32 department of economic security for the taxable year over the preceding  
33 taxable year's average employment.

34 E. In computing the amount of credit allowed under subsection A,  
35 paragraph 2 of this section, the taxpayer shall:

36 1. Prorate employment during the taxable year according to the date  
37 of transfer from defense to private commercial activities or the date of  
38 transfer from private commercial activities to defense.

39 2. Compute and subtract an amount pursuant to subsection B of this  
40 section for full-time equivalent employee positions that were transferred  
41 during the taxable year by the taxpayer from exclusively private commercial  
42 activities to exclusively defense related activities.

43 F. The taxpayer shall account for qualifying full-time equivalent  
44 employee positions on a first-in first-out basis. If a decrease in

qualifying employment occurs, the taxpayer shall subtract the decrease from the earliest qualifying positions.

G. A credit is not allowed under both subsection A, paragraphs 1 and 2 of this section with respect to the same employee position. A full-time equivalent employee position may be considered for purposes of computing the credit under either subsection A, paragraph 1 or 2 of this section, but not both.

H. A credit is not allowed under this section with respect to employment that was transferred from an outside contractor in this state to in-house employment by the taxpayer solely for purposes of qualifying for the credit.

I. A taxpayer that claims a credit under section 43-1167 may not claim a credit under this section with respect to the same employees.

J. Co-owners of a business, including corporate partners in a partnership, may each claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all such owners may not exceed the amount that would have been allowed for a sole owner of the business.

Sec. 27. Section 43-1166, Arizona Revised Statutes, is amended to read:

43-1166. Credit for property taxes paid by qualified defense contractor

A. A credit is allowed against the taxes imposed by this title equal to a portion of the amount paid as taxes during the taxable year by a qualified defense contractor that is certified by the department of commerce under section 41-1508 on property in this state that is classified as class one, paragraphs 12 and 13 pursuant to section 42-12001.

B. The amount of the credit is determined as follows:

1. Multiply the amount paid as taxes on property classified as class one, paragraphs 12 and 13 pursuant to section 42-12001 in this state during the taxable year by a percentage based on net new defense related employment, determined by subtracting the employment baseline determined pursuant to section 43-1165, subsection D, paragraph 1 from average annual employment as reported to the department of economic security for the taxable year, as follows:

<u>New employment</u>	<u>Credit percentage</u>
More than 900	40%
601 - 900	30%
301 - 600	20%
1 - 300	10%

2. Multiply the amount determined under paragraph 1 of this subsection by a percentage determined by dividing the taxpayer's total gross income from United States department of defense contracts apportioned to this state by the taxpayer's total gross income from all sources apportioned to this state.

1 C. If the allowable tax credit exceeds the taxes otherwise due under  
2 this title on the claimant's income, or if there are no taxes due under this  
3 title, the taxpayer may carry the amount of the claim not used to offset the  
4 taxes under this title forward until TAXABLE YEARS BEGINNING FROM AND AFTER  
5 December 31, 2011 as a credit against subsequent years' income tax liability,  
6 regardless of continuing certification as a qualified defense contractor.

7 D. Co-owners of a business, including corporate partners in a  
8 partnership, may each claim only the pro rata share of the credit allowed  
9 under this section based on the ownership interest. The total of the credits  
10 allowed all such owners may not exceed the amount that would have been  
11 allowed for a sole owner of the business.

12 Sec. 28. Section 43-1168, Arizona Revised Statutes, is amended to  
13 read:

14 43-1168. Credit for increased research activities

15 A. A credit is allowed against the taxes imposed by this title in an  
16 amount determined pursuant to section 41 of the internal revenue code, except  
17 that:

18 1. The amount of the credit is computed as follows:

19 (a) Add:

20 (i) The excess, if any, of the qualified research expenses for the  
21 taxable year over the base amount as defined in section 41(c) of the internal  
22 revenue code.

23 (ii) The basic research payments determined under section 41(e)(1)(A)  
24 of the internal revenue code.

25 (b) If the sum computed under subdivision (a) is two million five  
26 hundred thousand dollars or less, the credit is equal to twenty per cent of  
27 that amount.

28 (c) If the sum computed under subdivision (a) is over two million five  
29 hundred thousand dollars, the credit is equal to five hundred thousand  
30 dollars plus eleven per cent of any amount exceeding two million five  
31 hundred thousand dollars, except that:

32 (i) For taxable years beginning from and after December 31, 2000  
33 through December 31, 2001, the credit shall not exceed one million five  
34 hundred thousand dollars.

35 (ii) For taxable years beginning from and after December 31, 2001  
36 through December 31, 2002, the credit shall not exceed two million five  
37 hundred thousand dollars.

38 2. Qualified research includes only research conducted in this state  
39 including research conducted at a university in this state and paid for by  
40 the taxpayer.

41 3. If two or more taxpayers, INCLUDING CORPORATE PARTNERS IN A  
42 PARTNERSHIP, share in the eligible expenses, each taxpayer is eligible to  
43 receive a proportionate share of the credit.

44 4. The credit under this section applies only to expenses incurred  
45 from and after December 31, 1993.

1           5. The termination provisions of section 41 of the internal revenue  
2 code do not apply.

3           B. If the allowable credit under this section exceeds the taxes  
4 otherwise due under this title on the claimant's income, or if there are no  
5 taxes due under this title, the amount of the credit not used to offset taxes  
6 may be carried forward to the next fifteen consecutive taxable years. The  
7 ~~amount of credit carryforward that may be used in any taxable year may not~~  
8 ~~exceed the taxpayer's tax liability under this title after subtracting the~~  
9 ~~credit under this section for the current year's qualified research expenses.~~  
10 THE AMOUNT OF CREDIT CARRYFORWARD FROM TAXABLE YEARS BEGINNING FROM AND AFTER  
11 DECEMBER 31, 2000 THROUGH DECEMBER 31, 2002 THAT MAY BE USED UNDER THIS  
12 SUBSECTION IN ANY TAXABLE YEAR MAY NOT EXCEED THE TAXPAYER'S TAX LIABILITY  
13 UNDER THIS TITLE OR FIVE HUNDRED THOUSAND DOLLARS, WHICHEVER IS LESS, MINUS  
14 THE CREDIT UNDER THIS SECTION FOR THE CURRENT TAXABLE YEAR'S QUALIFIED  
15 RESEARCH EXPENSES. THE AMOUNT OF CREDIT CARRYFORWARD FROM TAXABLE YEARS  
16 BEGINNING FROM AND AFTER DECEMBER 31, 2002 THAT MAY BE USED UNDER THIS  
17 SUBSECTION IN ANY TAXABLE YEAR MAY NOT EXCEED THE TAXPAYER'S TAX LIABILITY  
18 UNDER THIS TITLE MINUS THE CREDIT UNDER THIS SECTION FOR THE CURRENT TAXABLE  
19 YEAR'S QUALIFIED RESEARCH EXPENSES.

20           C. If a taxpayer has qualified research expenses that are carried  
21 forward from taxable years beginning before January 1, 2001, the amount of  
22 the expenses carried forward shall be converted to a credit carryforward by  
23 multiplying the amount of the qualified expenses carried forward by twenty  
24 per cent and used as provided by subsection B of this section for the first  
25 taxable year beginning from and after December 31, 2000. A credit  
26 carryforward determined under this subsection may be carried forward to not  
27 more than fifteen years from the year in which the expenses were  
28 incurred. The amount of the credit carryforward from taxable years beginning  
29 from and after December 31, 2002 that may be used under this subsection in  
30 a taxable year may not exceed the taxpayer's tax liability under this title  
31 after subtracting the credit under this section for the current year's  
32 qualified research expenses. The amount of credit carryforward from taxable  
33 years beginning before January 1, 2003 2001 that may be used UNDER THIS  
34 SUBSECTION in any taxable year may not exceed the taxpayer's tax liability  
35 under this title after subtracting OR FIVE HUNDRED THOUSAND DOLLARS,  
36 WHICHEVER IS LESS, MINUS the credit under this section for the current  
37 TAXABLE year's qualified research expenses or the difference between five  
38 hundred thousand dollars and the credit under this section for the current  
39 year's qualified research expenses, whichever amount is less. THE TOTAL  
40 AMOUNT OF CREDIT CARRYFORWARD FROM TAXABLE YEARS BEGINNING BEFORE JANUARY 1,  
41 2003 THAT MAY BE USED IN ANY TAXABLE YEAR UNDER THE PROVISIONS OF SUBSECTION  
42 B AND THIS SUBSECTION MAY NOT EXCEED THE TAXPAYER'S TAX LIABILITY UNDER THIS  
43 TITLE OR FIVE HUNDRED THOUSAND DOLLARS, WHICHEVER IS LESS, MINUS THE CREDIT  
44 UNDER THIS SECTION FOR THE CURRENT TAXABLE YEAR'S QUALIFIED RESEARCH  
45 EXPENSES.

1       Sec. 29. Section 43-1179, Arizona Revised Statutes, is amended to  
2 read:

3       43-1179. Employer credit for technology training; definition

4       A. For tax years beginning from and after December 31, 2000 and ending  
5 before January 1, 2006, a credit is allowed against the taxes imposed by this  
6 title for expenses incurred by the taxpayer for providing qualified  
7 technology skills training to not more than twenty of the taxpayer's  
8 employees.

9       B. The amount of the credit is equal to fifty per cent of the amount  
10 actually spent during the taxable CALENDAR year for the cost of training but  
11 not more than one thousand five hundred dollars per employee.

12       C. To receive a tax credit under this section, a taxpayer must apply  
13 to the department of commerce, on a form prescribed by the department of  
14 commerce, on or before January 15 following the calendar year in which the  
15 ~~credit is claimed~~ EXPENSES WERE INCURRED. On or before February 15 of that  
16 same year, the department of commerce shall review and determine the amount  
17 of the credit for each taxpayer and issue a certificate to each qualifying  
18 applicant stating the amount of the credit. THE TAXPAYER SHALL CLAIM THE  
19 CREDIT ON THE NEXT TAX RETURN FILED AFTER RECEIVING THE CERTIFICATE FROM THE  
20 DEPARTMENT OF COMMERCE. The department of commerce shall not certify tax  
21 credits under this section in any calendar year exceeding two million five  
22 hundred thousand dollars. If qualifying applications exceed two million five  
23 hundred thousand dollars, the department of commerce shall proportionately  
24 reduce the amount of the credit allowed each taxpayer.

25       D. If the allowable tax credit exceeds the taxes due under this title  
26 on the claimant's income, or if there are no taxes due under this title, the  
27 amount of the claim not used to offset the taxes under this title shall be  
28 paid in the same manner as a refund granted under section 42-1118. Refunds  
29 made pursuant to this section are subject to setoff under section 42-1122.

30       E. Co-owners of a business, including corporate partners in a  
31 partnership, may each claim only the pro rata share of the credit allowed  
32 under this section based on the ownership interest. The total of the credits  
33 allowed all of the owners of the business shall not exceed the amount that  
34 would have been allowed for a sole owner of the business.

35       F. For purposes of this section, "qualified technology skills  
36 training" means a training program that is certified by the department of  
37 commerce under section 41-1518.01.

38       Sec. 30. Section 43-1180, Arizona Revised Statutes, is amended to  
39 read:

40       43-1180. Credit for taxpayers participating in agricultural  
41 preservation district

42       A. For taxable years beginning from and after December 31, 2000 and  
43 ending before January 1, 2006, a credit is allowed in lieu of any other  
44 deduction or credit against taxes imposed by this title for a taxpayer who  
45 owns property classified as class two property under section 42-12002 and who

1 conveys ownership or development rights of the property to an agricultural  
2 preservation district under section 48-5702. Except as provided in  
3 subsection B of this section, the amount of the credit is either:

4 1. The appraised value of the property if the taxpayer conveys the  
5 ownership of the property to the district.

6 2. The difference between the appraised value of the undeveloped land  
7 and the appraised value of the land for development purposes if the taxpayer  
8 conveys the development rights of the property to the district.

9 B. To receive a tax credit under this section, a taxpayer must apply  
10 to the agricultural preservation district, on a form prescribed by the  
11 district, on or before January 15 following the calendar year in which the  
12 conveyance or close of escrow occurred. On or before February 15, the  
13 district shall review and determine the qualification for and amount of the  
14 credit for each taxpayer and issue a certificate to each qualifying applicant  
15 stating the appraisal amount and the amount of the credit. THE TAXPAYER  
16 SHALL CLAIM THE CREDIT ON THE NEXT TAX RETURN FILED AFTER RECEIVING THE  
17 CERTIFICATE FROM THE DISTRICT. The district shall not certify tax credits  
18 under this section in any calendar year exceeding thirty-three thousand  
19 dollars. If qualifying applications exceed ~~ten million~~ THIRTY-THREE THOUSAND  
20 dollars, the district shall proportionately reduce the amount of the credit  
21 awarded to each taxpayer

22 C. Co-owners of the property, including corporate partners in a  
23 partnership, may each claim only the pro rata share of the credit allowed  
24 under this section based on the ownership interest. The total of the credits  
25 allowed all such owners may not exceed the amount that would have been  
26 allowed a sole owner.

27 D. If the allowable tax credit exceeds the taxes due under this title  
28 on the claimant's income, or if there are no taxes due under this title, the  
29 amount of the claim not used to offset the taxes under this title shall be  
30 paid in the same manner as a refund granted under ~~chapter 6, article 1 of~~  
31 ~~this title~~ SECTION 42-1118. Refunds made pursuant to this section are  
32 subject to setoff under section 42-1122.

33 Sec. 31. Section 43-1231, Arizona Revised Statutes, is amended to  
34 read:

35 43-1231. Taxation of unrelated business income

36 Any organization, trust or church or a convention or association of  
37 churches which is exempt, except as provided in this section, from taxation  
38 under this title by reason of section 43-1201, paragraphs 1 through 14 shall  
39 be subject to the tax imposed under section 43-1111 upon its "unrelated  
40 business TAXABLE income" as defined in section 512 of the internal revenue  
41 code. Such taxes shall also apply to an organization described in section  
42 43-1201, paragraph 8 if the income is payable to an organization which itself  
43 is subject to the tax imposed under this section or to a church or to a  
44 convention or association of churches.

1       Sec. 32. Section 43-1241, Arizona Revised Statutes, is amended to  
2 read:

3       43-1241. Returns of unrelated business income

4       Every organization, otherwise exempt under section 43-1201 but having  
5 unrelated business TAXABLE income, shall:

6       1. File a return, verified by an executive officer under penalties of  
7 perjury in the form prescribed by the department on or before the fifteenth  
8 day of the fifth month after the close of the taxable year, reporting its  
9 income from such activities.

10       2. Pay a tax at the rates prescribed in section 43-1111 on its  
11 unrelated business TAXABLE income as defined in section 43-1231.

12       Sec. 33. Section 43-1413, Arizona Revised Statutes, is amended to  
13 read:

14       43-1413. Year in which partnership income is includible

15       In computing the taxable income of a partner for a taxable year the  
16 inclusions required by section ~~43-1411~~ 43-1412 with respect to a partnership  
17 shall be based on the income, gain, loss, deduction or credit of the  
18 partnership for any taxable year of the partnership ending within or with the  
19 taxable year of the partner.

20       Sec. 34. Section 44-301, Arizona Revised Statutes, is amended to read:

21       44-301. Definitions

22       In this chapter, unless the context otherwise requires:

23       1. "Apparent owner" means a person whose name appears on the records  
24 of a holder as the person entitled to property held, issued or owing by the  
25 holder.

26       2. "Business association" means any corporation, joint stock company,  
27 investment company, partnership, limited partnership, registered limited  
28 liability partnership, unincorporated association, joint venture, limited  
29 liability company, business trust, trust company, land bank, safe deposit  
30 company, safekeeping depository, financial organization, insurance company,  
31 mutual fund, utility or other business entity, whether for profit or not for  
32 profit, that consists of one or more persons.

33       3. "De minimis property" means any account balances of business  
34 associations of fifty dollars or less payable to another business  
35 association.

36       4. "Department" means the department of revenue.

37       5. "Director" means the director of the department of revenue.

38       6. "Domicile" means the state of incorporation of a corporation and  
39 the state of the principal place of business of a holder other than a  
40 corporation.

41       7. "Financial organization" means a savings and loan association,  
42 building and loan association, savings bank, industrial bank, bank, banking  
43 organization or credit union.

44       8. "Holder" means a person who is obligated to hold for the account  
45 of or deliver or pay to the owner property that is subject to this chapter.

1           9. "Insurance company" means an association, corporation or fraternal  
2 or mutual benefit society or organization, whether for profit or not for  
3 profit, that is engaged in the business of providing life endowments,  
4 annuities or insurance, including accident, burial, casualty, credit life,  
5 contract performance, dental, disability, fidelity, fire, health,  
6 hospitalization, illness, life, malpractice, marine, mortgage, surety, wage  
7 protection and workers' compensation insurance.

8           10. "Mineral" means gas, oil, coal, sand, gravel, road material,  
9 building stone, chemical raw material, gemstone, fissionable and  
10 nonfissionable ores, colloid and other clay, steam and other geothermal  
11 resource or any other substance defined as a mineral in sections 27-231 and  
12 27-901.

13           11. "Mineral proceeds" means the amounts payable for the extraction,  
14 production or sale of minerals or, if those amounts are abandoned, all  
15 payments that become payable after the abandonment. Mineral proceeds include  
16 amounts payable:

17           (a) For the acquisitions and retention of a mineral lease, including  
18 bonuses, royalties, compensatory royalties, shut-in royalties, minimum  
19 royalties and delay rentals.

20           (b) For the extraction, production or sale of minerals, including net  
21 revenue interest, royalties, overriding royalties, extraction payments and  
22 production payments.

23           (c) Under an agreement or option, including a joint operating  
24 agreement, unit agreement, pooling agreement and farm out agreement.

25           12. "Money order" includes an express money order and a personal money  
26 order on which the remitter is the purchaser. Money order does not include  
27 a bank money order or any other instrument that is sold by a financial  
28 organization if the seller has obtained the name and address of the payee.

29           13. "Owner" means a person who has a legal or equitable interest in  
30 property that is subject to this chapter or the person's legal  
31 representative. Owner includes a depositor in the case of a deposit, a  
32 beneficiary in the case of a trust other than a deposit in trust and a  
33 creditor, claimant or payee in the case of other property.

34           14. "Person" means an individual, business association, financial  
35 organization, estate, trust, government, governmental subdivision, agency or  
36 instrumentality or any other legal or commercial entity.

37           15. "Property" means tangible property pursuant to section 44-303 or  
38 a fixed and certain interest in intangible property that is held, issued or  
39 owed in the course of a holder's business or by a government, governmental  
40 subdivision, agency or instrumentality and all income or increments from that  
41 property. Property does not include de minimis property, PROPERTY OF A  
42 PERSON WHO IS MAINTAINING A CURRENT BUSINESS RELATIONSHIP WITH THE HOLDER and  
43 property that is referred to or evidenced by gift certificates, electronic  
44 gift cards, nonrefundable tickets, certificates evidencing property  
45 denominated in value other than a currency, including prepaid phone cards,



1 frequent flyer miles, stored value cards and merchandise points. Property  
2 includes property that is referred to as or evidenced by any of the  
3 following:

4 (a) Money or any check, draft, deposit, interest or dividend.

5 (b) Any credit balance, customer's overpayment, security deposit,  
6 refund, credit memorandum, unpaid wage, unused ticket, mineral proceeds or  
7 unidentified remittance.

8 (c) Any stock or other evidence of ownership of an interest in a  
9 business association or financial organization.

10 (d) Any bond, debenture, note or other evidence of indebtedness.

11 (e) Money deposited to redeem stocks, bonds, coupons or other  
12 securities or to make distributions.

13 (f) An amount due and payable under the terms of an annuity or  
14 insurance policy, including policies that provide life, property, casualty,  
15 workers' compensation, health or disability insurance.

16 (g) An amount distributable from a trust or custodial fund that is  
17 established under a plan to provide health, welfare, pension, vacation,  
18 severance, retirement, death, stock purchase, profit sharing, employee  
19 savings or supplemental unemployment insurance or similar benefits.

20 16. "Record" means information that is inscribed on a tangible medium  
21 or that is stored in any electronic or other medium and that is retrievable  
22 in a perceivable form.

23 17. "State" means a state of the United States, the district of  
24 Columbia, the commonwealth of Puerto Rico or any territory or insular  
25 possession that is subject to the jurisdiction of the United States.

26 18. "Utility" has the same meaning prescribed in section 40-491.

27 Sec. 35. Section 44-302, Arizona Revised Statutes, is amended to read:

28 44-302. Presumptions of abandonment

29 A. Property is presumed abandoned if it is unclaimed by the apparent  
30 owner according to the following schedule:

31 1. A traveler's check is presumed abandoned fifteen years after  
32 issuance.

33 2. A money order or similar written instrument, other than a third  
34 party bank check, is presumed abandoned seven years after issuance.

35 3. Any stock or other equity interest in a business association or  
36 financial organization, including a security entitlement under title 47,  
37 chapter 8, is presumed abandoned three years after any of the following,  
38 whichever occurs first:

39 (a) The date of the most recent dividend, stock split or other  
40 distribution that is unclaimed by the apparent owner.

41 (b) The date of the second mailing of a statement of account or other  
42 notification or communication that was returned as undeliverable.

43 (c) The date the holder discontinued mailings, notifications or  
44 communications to the apparent owner.

1        4. The principal on debt, other than a bearer bond or an original  
2 issue discount bond, of a business association or financial organization is  
3 presumed abandoned five years after the maturity date and the interest on the  
4 debt is presumed abandoned five years after the payment date.

5        5. A demand, savings or time deposit, including a deposit that is  
6 automatically renewable, and any interest or dividends are presumed abandoned  
7 five years after maturity or the date of the last indication by the owner of  
8 interest in the property, whichever occurs first. For the purposes of this  
9 paragraph, a deposit that is automatically renewable is deemed matured on its  
10 initial date of maturity, unless the owner has consented to a renewal at or  
11 about the time of the renewal and the consent is in writing or is evidenced  
12 by any memorandum or other record on file with the holder.

13       6. Credits owed to a customer as a result of a retail business  
14 transaction are presumed abandoned five years after the obligation accrued.

15       7. An amount owed by an insurer ~~INSURANCE COMPANY~~ on a life or  
16 endowment insurance policy or an annuity that has matured or terminated is  
17 presumed abandoned five years after the obligation to pay arose or, in the  
18 case of a policy or annuity that is payable on proof of death, the amount is  
19 presumed abandoned two years after the insured has attained, or would have  
20 attained if the insured were living, the limiting age under the mortality  
21 table on which the reserve is based. For the purposes of this paragraph all  
22 of the following conditions apply:

23       (a) If a person other than the insured or annuitant is entitled to the  
24 owed amount and the person's address is not known to the company or it is not  
25 definite and certain from the records of the company who is entitled to the  
26 amount, it is presumed that the last known address of the person who is  
27 entitled to the amount is the same as the last known address of the insured  
28 or annuitant according to the company's records.

29       (b) Notwithstanding any law, if the company learns of the death of the  
30 insured or annuitant and the beneficiary has not communicated with the  
31 insurer within four months after the death, the company shall take reasonable  
32 steps to pay the proceeds to the beneficiary.

33       (c) Every change of beneficiary form issued by an insurance company  
34 under any life or endowment insurance policy or annuity contract to an  
35 insured or owner who is a resident of this state shall request the following  
36 information:

37       (i) The name of each beneficiary, or if a class of beneficiaries is  
38 named, the name of each current beneficiary in the class.

39       (ii) The address of each beneficiary.

40       (iii) The relationship of each beneficiary to the insured.

41       8. A life or endowment insurance policy or annuity contract not  
42 matured by actual proof of the death of the insured or annuitant according  
43 to the company's records is deemed matured and the proceeds are deemed due  
44 and payable and are presumed abandoned after two years if all of the  
45 following conditions apply:

1 (a) The insured has attained, or would have attained if the insured  
2 were living, the limiting age under the mortality table on which the reserve  
3 is based.

4 (b) The policy was in force at the time the insured attained or would  
5 have attained the limiting age specified in subdivision (a) of this  
6 paragraph.

7 (c) Neither the insured nor any other person who appears to have an  
8 interest in the policy within the last two years according to the company's  
9 records has assigned, readjusted or paid premiums on the policy or subjected  
10 the policy to a loan, corresponded in writing with the company concerning the  
11 policy or otherwise indicated an interest as evidenced by a memorandum or any  
12 other record on file with and prepared by an employee of the company.

13 9. Property that is distributable by a business association or  
14 financial organization in a course of dissolution is presumed abandoned one  
15 year after the property becomes distributable.

16 10. Property that is received by a court as proceeds of a class action  
17 and that is not distributed pursuant to the judgment is presumed abandoned  
18 one year after the distribution date.

19 11. Property that is held by a court, government, OR governmental  
20 subdivision, agency or instrumentality, except for support as defined in  
21 section 25-500 or for spousal maintenance, is presumed abandoned one year  
22 after the property becomes distributable. Monies held for the payment of  
23 warrants by a state agency that remain unclaimed by the owner at the time of  
24 the void date printed on the face of the warrant are presumed abandoned. FOR  
25 PURPOSES OF THIS PARAGRAPH, "GOVERNMENTAL SUBDIVISION" DOES NOT INCLUDE A  
26 SPECIAL TAXING DISTRICT DEFINED IN SECTION 48-241.

27 12. Wages or other compensation for personal services is presumed  
28 abandoned one year after the compensation becomes payable.

29 13. Property in any individual retirement account, defined benefit plan  
30 or other account or plan that qualifies for tax deferral under the income tax  
31 laws of the United States is presumed abandoned three years after any of the  
32 following, whichever occurs first:

33 (a) The date of the distribution or attempted distribution of the  
34 property.

35 (b) The date of the required distribution as stated in the plan or  
36 trust agreement that governs the plan.

37 (c) If determinable by the holder, the date specified in the income  
38 tax laws of the United States by which distribution of the property must  
39 begin in order to avoid a tax penalty.

40 14. Any amount that is payable on a check, draft or similar instrument  
41 on which a ~~banking~~ or financial organization or business association is  
42 directly liable, including a cashier's check and a certified check, and that  
43 has been outstanding for more than five years after the check, draft or  
44 similar instrument was payable or after issuance if payable on demand is  
45 presumed abandoned unless within five years the owner has communicated in

1 writing with the banking or financial organization or business association  
2 concerning the check, draft or similar instrument or otherwise indicated an  
3 interest as evidenced by a memorandum or any other record on file and  
4 prepared by an employee of the banking or financial organization or business  
5 association.

6 15. All other property is presumed abandoned five years after the  
7 owner's rights to demand the property or after the obligation to pay or  
8 distribute the property arises, whichever occurs first.

9 B. At the time that an interest is presumed abandoned under subsection  
10 A, any other property right accrued or accruing to the owner as a result of  
11 the interest, and not previously presumed abandoned, is also presumed  
12 abandoned.

13 C. Property is unclaimed if, for the applicable period prescribed in  
14 subsection A of this section, the apparent owner has not communicated in  
15 writing with the holder or communicated by other means reflected in a  
16 contemporaneous record that is prepared by or on behalf of the holder and  
17 that concerns the property or the account or accounts in which the property  
18 is held and has not otherwise indicated an interest in the property and if  
19 the holder has not communicated in writing with regard to the property that  
20 would otherwise be unclaimed. A communication with an owner by a person  
21 other than the holder or the holder's representative who has not identified  
22 the property in writing to the owner is not an indication of interest in the  
23 property by the owner.

24 D. An indication of an owner's interest in property includes:

25 1. The presentment of any check or other instrument of payment of any  
26 dividend or other distribution that is made with respect to any account,  
27 underlying stock or other interest in a business association or financial  
28 organization. If the distribution is made by electronic or similar means an  
29 indication of an owner's interest includes evidence that the distribution has  
30 been received.

31 2. Activity directed by the owner in the account in which the property  
32 is held, including a direction by the owner to increase, decrease or change  
33 the amount or type of property held in the account.

34 3. The making of a deposit to or withdrawal from a bank account.

35 4. The payment of a premium with respect to a property interest in an  
36 insurance policy. The application of an automatic premium loan provision or  
37 any other nonforfeiture provision in an insurance policy does not prevent a  
38 policy from maturing or terminating if the insured has died or if the insured  
39 or the beneficiary of the policy has otherwise become entitled to the  
40 proceeds before the depletion of the cash surrender value of a policy by the  
41 application of those provisions.

42 E. Property is payable or distributable notwithstanding the owner's  
43 failure to make demand or present an instrument or document otherwise  
44 required to obtain payment.

1        Sec. 36. Retroactivity

2        A. Section 15-994, Arizona Revised Statutes, as amended by this act,  
3 applies retroactively to July 18, 2000.

4        B. Section 42-5061, subsection B, paragraph 13 and section 42-5159,  
5 subsection B, paragraph 13, Arizona Revised Statutes, as amended by this act,  
6 apply retroactively to taxable periods beginning from and after June 30,  
7 2000.

8        C. Section 43-1022, paragraph 25, Arizona Revised Statutes, as amended  
9 by this act, applies retroactively to taxable years beginning from and after  
10 December 31, 1999.

11       D. Section 44-302, Arizona Revised Statutes, as amended by this act,  
12 applies retroactively to January 1, 2001.

13       E. Sections 43-1074.01 and 43-1168, Arizona Revised Statutes, as  
14 amended by this act, apply retroactively to taxable years beginning from and  
15 after December 31, 2000.

16       F. Section 5-407, Arizona Revised Statutes, as amended by this act  
17 applies retroactively to August 6, 1999.

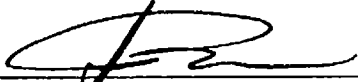
**APPROVED BY THE GOVERNOR APRIL 12, 2001.**

**FILED IN THE OFFICE OF THE SECRETARY OF STATE APRIL 12, 2001.**

Passed the House January 30, 2001,

by the following vote: 58 Ayes,

1 Nays, 1 Not Voting

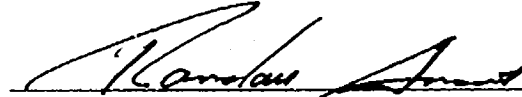
  
Speaker of the House


  
Chief Clerk of the House

Passed the Senate April 2, 2001,

by the following vote: 29 Ayes,

0 Nays, 1 Not Voting

  
President of the Senate

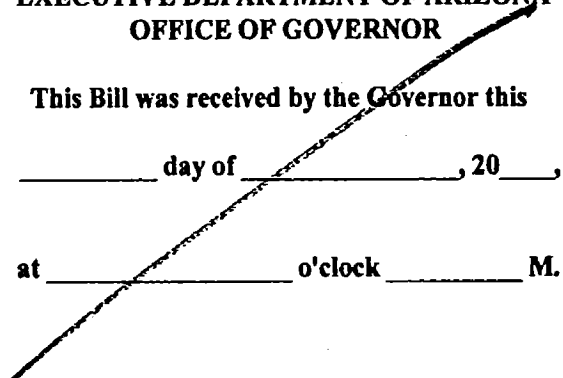
  
Secretary of the Senate

EXECUTIVE DEPARTMENT OF ARIZONA  
OFFICE OF GOVERNOR

This Bill was received by the Governor this

           day of           , 20  ,

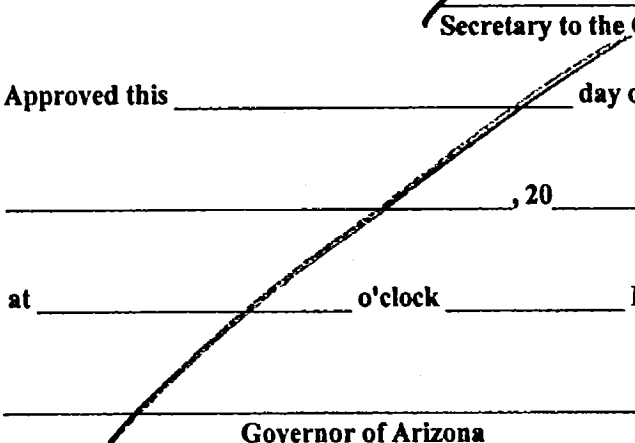
at            o'clock            M.

  
Secretary to the Governor

Approved this            day of

          , 20  ,

at            o'clock            M.

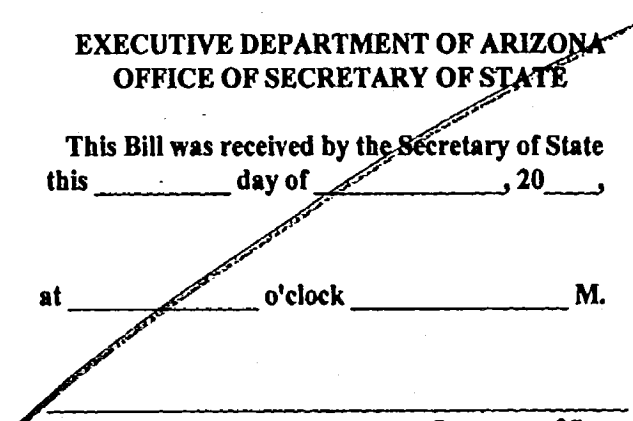
  
Governor of Arizona

H.B. 2145

EXECUTIVE DEPARTMENT OF ARIZONA  
OFFICE OF SECRETARY OF STATE

This Bill was received by the Secretary of State  
this            day of           , 20  ,

at            o'clock            M.

  
Secretary of State

HOUSE CONCURS IN SENATE  
AMENDMENTS AND FINAL PASSAGE

April 05, 2001,

by the following vote: 52 Ayes,

2 Nays, 6 Not Voting

Jake Flake  
Speaker of the House  
Pro Tempore  
Norman L. Moore  
Chief Clerk of the House

EXECUTIVE DEPARTMENT OF ARIZONA  
OFFICE OF GOVERNOR

This Bill was received by the Governor this

6 day of April, 2001,

at 9:32 o'clock A M.

Sandra Ramirez  
Secretary to the Governor

Approved this 12 ~~15~~ day of

April, 2001,

at 10:45 o'clock 9 M.

Janice McCreary  
Governor of Arizona

H.B. 2145

EXECUTIVE DEPARTMENT OF ARIZONA  
OFFICE OF SECRETARY OF STATE

This Bill was received by the Secretary of State  
this 12 day of April, 2001,

at 4:10 o'clock P M.

Peter Bayless  
Secretary of State